

CITY OF READING

**FINANCIAL AND COMPLIANCE
AUDIT REPORT**

Year Ended December 31, 2007

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HERBEIN+COMPANY, INC.
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**Members of City Council
City of Reading
Reading, Pennsylvania**

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Reading as of and for the year ended December 31, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Reading's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Reading as of December 31, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 2, 2008, on our consideration of the City of Reading's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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Management's Discussion and Analysis, Budgetary Comparison Schedule for the General Fund, and the Schedules of Funding Progress and Employer Contributions are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, consisting principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the supplementary information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Reading's basic financial statements. The schedules on pages 56 through 67 are presented for additional analysis and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Herbein + Company, Inc.

Reading, Pennsylvania
July 2, 2008



FINANCE
DEPARTMENT

CITY OF READING, PENNSYLVANIA

ACCOUNTING & FISCAL MANAGEMENT DIVISION

ROOM 2-51

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*The City of Reading, Pennsylvania
Management's Discussion and Analysis
For the Year Ended December 31, 2007*

The following discussion and analysis of the City of Reading's financial outcome provides an overview of the fiscal year ending December 31, 2007. The Management Discussion and Analysis is meant to provide the citizens, taxpayers, customers, vendors, creditors, investors and the legislators with a better understanding of the City's fiscal health.

The 2007 Fiscal Year End Audit is structured with the independent auditor's report appearing at the beginning of this document, followed by the Management's Discussion and Analysis, the Basic Financial Statements, Combining and Individual Fund Financial Statement and Schedules, Required Supplementary Information Schedule of Expenditures of Federal Awards, Report on compliance and internal control over financial reporting based on an audit of financial statements performed in accordance with Government Auditing Standards, Report on compliance with requirements applicable to each major program and internal control over compliance in accordance with OMB Circular A-133, Schedule of Findings and Questioned costs, Status of Prior Year Findings and Recommendations, and the Corrective Action Plan.

The Government-wide Financial Statements and Fund Financial Statements have a different measurement focus and basis of accounting. The fund financial statements are used to report additional detailed information about the primary government not found in the government-wide statements and focus on major funds of the primary government.

Government-Wide Statements:

Government-wide Statements include governmental activities of the primary government, business-type activities of the primary government and non-fiduciary component units. They do not include any fiduciary activities or fiduciary-type component units.



The report focuses on changes in net assets. Government-wide statements also recognize transactions and events when they occur, independent of the timing of cash flows.

For business-type transactions, there are no changes from fund statements. For governmental activities, many changes are captured through the government-wide statements, but are not required to be changed on the general ledger. Capital assets have been added and deferred items are also captured on the reports. Depreciation is reported through the statements for governmental activities to capture the expenses versus the expenditures.

The columns for the government-wide statements are set up to capture governmental activities, business-type activities, total for primary government and the discretely presented component unit. For the City of Reading, the governmental activities are general government, public safety, public works, culture and recreation, community development and other expenses including interest payments on long-term debt. The business-type activities are Water, Sewer, and Recycling/Trash provided by the City on a fee for service basis. The component unit is the Reading Parking Authority. The Fiduciary Funds are the Police Pension Fund, the Paid Firemen's Pension Fund and the Officers' and Employees' Pension Fund.

Fund Financial Statements:

The fund financial statements provide a more detailed outlook of the City's funds. Any major funds are detailed in the fund financial statements. For the City, the major Governmental funds are the General Fund, Community Development, Redevelopment Authority, Capital Projects, and Debt Service. All other funds are combined in the Non-Major Funds column.

The proprietary funds are broken down into Water Fund, Sewer Fund, Internal Service Funds and Other Enterprise Funds (Recycling/Trash). The fund financial statements consist of the balance sheets and income statements for all of the above listed funds.

Financial Highlights for FY 2007:

With the continued financial constraints that the City of Reading faces, there has to be commitment for better fiscal control over 2007's budget and budgets to follow. The City contracted with Management Partners to conduct an operational and financial analysis. This study will continue through 2008. Throughout 2007 the City used the ongoing Management Partners study to provide financial condition updates. The City continues to face a very real structural deficit. For too long the City has depended heavily on one time unsustainable revenue sources to make ends meet. This practice has given us the feeling that things were O.K. while the structural imbalance continued to grow. Recent projections made by City Staff; however, show that the cumulative deficit could reach more than \$130 million by 2013 if the City fails to take appropriate action. In 2006 the City issued a Pension Bond to fund its three pension funds. By issuing a

Pension Bond the City anticipates saving more than \$1 million dollars annually over the next 20+ years. Unfortunately, due to poor actuarial performance in 2007, real savings were not as large as projected. The City also completed a forward starting swap on its 2008 Sewer Bond generating an additional \$4.5 million in revenue.

The City ended the Fiscal year 2003 with a deficit of \$3,018,324 in its General Fund. The General Fund reported an accumulated deficit of \$5,013,580 at the end of 2004 and began the Fiscal year of 2005 with an accumulated deficit of \$7,220,468 when you add EMS's deficit. In 2005 the City of Reading was able to reduce the cumulative deficit by \$6,128,894 lowering the cumulative deficit to \$1,091,574 and in 2006 the Administration and Council achieved its goal of eliminating the deficit completely ending the year with a fund balance of \$8,472,145. The City ended Fiscal Year 2007 with \$4,097,298 in its General Fund a decrease of \$4,374,847.

The following tables compare FY 2006 and FY2007.

Statement of Net Assets:

The following table consists of the condensed Statement of Net Assets:

	2006	2006	2006	2006
	Governmental	Business-	Total	Component
	Activities	type	Primary	Unit
	Activities	Activities	Government	Unit
ASSETS				
Current (restricted)	27,326,933	13,256,315	40,583,248	10,147,132
Capital and other Assets	119,911,827	82,022,877	201,934,704	32,479,005
Total Assets	147,238,760	95,279,192	242,517,952	42,626,137
Current Liabilities	18,212,035	9,445,008	27,657,043	4,064,677
Long-term Liabilities	107,161,988	41,068,389	148,230,377	32,317,740
Total Liabilities	125,374,023	50,513,397	175,887,420	36,382,417
Net assets:				
Invested in capital assets,				
net of related debt	-	43,431,274	43,431,274	-
Restricted	-	2,204,124	2,204,124	-
Unrestricted	21,864,737	(869,603)	20,995,134	6,243,720
Total Net Assets	21,864,737	44,765,795	66,630,532	6,243,720

The total net assets of all governmental activities for fiscal year end 2006 are \$21,864,737. This is not a reflection of General Fund fund balance. This can be found on the fund statements for comparison to prior years. The component unit listed above is the Reading Parking Authority.

	2007	2007	2007	2007
	Governmental	Business-	Total	Component
	Activities	type	Primary	Unit
	Activities	Activities	Government	Unit
ASSETS				
Current (restricted)	29,239,146	43,626,668	72,865,814	10,936,008
Capital and other Assets	118,575,505	83,608,133	202,183,638	34,107,271
Total Assets	147,814,651	127,234,801	275,049,452	45,043,279
Current Liabilities	22,563,547	10,480,763	33,044,310	3,304,619
Long-term Liabilities	104,777,137	60,571,363	165,348,500	32,820,472
Total Liabilities	127,340,684	71,052,126	198,392,810	36,125,091
Net assets:				
Invested in capital assets,				
net of related debt	-	36,371,739	36,371,739	-
Restricted	-	3,218,670	3,218,670	-
Unrestricted	20,473,967	16,592,266	37,066,233	8,918,188
Total Net Assets	20,473,967	56,182,675	76,656,642	8,918,188

Statement of Activities:

The following table consists of the condensed 2006 Statement of Revenues and Expenses:

	Governmental Activities	Business- Type Activities	Total	Component Unit
REVENUES				
Program Revenues:				
Charges for Services	17,093,753	36,765,709	53,859,462	7,270,588
Operating grants and contributions	19,726,298	361,823	20,088,121	-
Capital grants and contributions	-	-	-	-
TOTAL PROGRAM REVENUES	36,820,051	37,127,532	73,947,583	7,270,588
General Revenues:				
Property Taxes, levied for general purposes	14,900,497	-	14,900,497	-
Earned income, franchise, and other taxes	18,412,582	-	18,412,582	-
Investment earnings	1,847,844	320,360	2,168,204	399,665
Capital Contributions		960,464	960,464	
Miscellaneous income	-	(81,933)	(81,933)	10,402
Transfers	7,804,337	(7,804,337)	-	-
TOTAL GENERAL REVENUES	42,965,260	(6,605,446)	36,359,814	410,067
Indirect Cost Allocation:				
Indirect cost	1,197,058	(1,197,058)	-	-
TOTAL INDIRECT REVENUES	1,197,058	(1,197,058)	-	-
Total Revenues	80,982,369	29,325,028	110,307,397	7,680,655

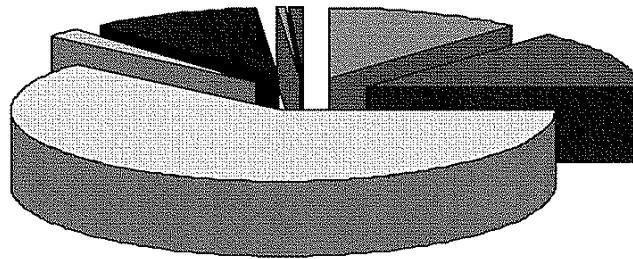
	Governmental Activities	Business- Type Activities	Total	Component Unit
EXPENSES				
Functions/Programs				
Primary government				
Governmental activities:				
General government	8,402,230	-	8,402,230	-
Public safety				
Police	27,580,999	-	27,580,999	-
Fire	11,202,636	-	11,202,636	-
EMS	3,239,021	-	3,239,021	-
Public works: other	6,589,855	-	6,589,855	-
Public works: highways and streets	2,828,702	-	2,828,702	-
Culture and recreation	1,795,865	-	1,795,865	-
Community Development	14,121,261	-	14,121,261	-
Other	491,172	-	491,172	-
Debt service - interest	2,182,312	-	2,182,312	-
TOTAL GOVERNMENTAL ACTIVITIES	78,434,053	-	78,434,053	-
Business-type activities				
Water	-	10,836,658	10,836,658	-
Sewer	-	13,549,056	13,549,056	-
Trash and Recycling	-	2,768,056	2,768,056	-
TOTAL BUSINESS-TYPE ACTIVITIES	-	27,153,770	27,153,770	-
Total Expenses-Primary Government	78,434,053	27,153,770	105,587,823	-
Component Unit:				
Reading Parking Authority				
Parking	-	-	-	5,445,415
CHANGE IN NET ASSETS	2,548,316	2,171,258	4,719,574	2,235,240
NET ASSETS-BEGINNING	19,316,421	42,594,537	61,910,958	4,008,480
NET ASSETS-ENDING	21,864,737	44,765,795	66,630,532	6,243,720

The following table consists of the condensed 2007 Statement of Revenues and Expenses:

	Governmental Activities	Business- Type Activities	Total	Component Unit
REVENUES				
Program Revenues:				
Charges for Services	12,369,616	48,207,682	60,577,298	7,769,974
Operating grants and contributions	14,123,617	770,647	14,894,264	-
Capital grants and contributions	-	-	-	-
TOTAL PROGRAM REVENUES	26,493,233	48,978,329	75,471,562	7,769,974
General Revenues:				
Property Taxes, levied for general purposes	15,209,153	-	15,209,153	-
Earned income, franchise, and other taxes	19,038,119	-	19,038,119	-
Investment earnings	2,748,720	822,391	3,571,651	604,942
Capital Contributions	-	-	-	-
Miscellaneous income	-	1,317	1,317	7,208
Transfers	7,128,313	(7,128,313)	-	-
TOTAL GENERAL REVENUES	44,124,305	(6,304,065)	37,820,240	612,150
Indirect Cost Allocation:				
Indirect cost	1,625,914	(1,625,914)	-	-
TOTAL INDIRECT REVENUES	1,625,914	(1,625,914)	-	-
Total Revenues	72,243,452	41,048,350	113,291,802	8,382,124

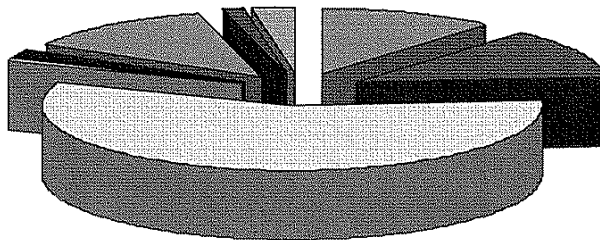
	Governmental Activities	Business- Type Activities	Total	Component Unit
EXPENSES				
Functions/Programs				
Primary government				
Governmental activities:				
General government	9,280,081	-	9,280,081	-
Public safety				
Police	26,631,653	-	26,631,653	-
Fire	9,668,439	-	9,668,439	-
EMS	3,634,361	-	3,634,361	-
Public works: other	6,723,051	-	6,723,051	-
Public works: highways and streets	3,001,890	-	3,001,890	-
Culture and recreation	1,706,529	-	1,706,529	-
Community Development	7,920,529	-	7,920,529	-
Other	834,359	-	834,359	-
Debt service - interest	4,233,350	-	4,233,350	-
TOTAL GOVERNMENTAL ACTIVITIES	73,634,222	-	73,634,222	-
Business-type activities				
Water	-	12,218,809	12,218,809	-
Sewer	-	13,016,474	13,016,474	-
Trash and Recycling	-	4,396,187	4,396,187	-
TOTAL BUSINESS-TYPE ACTIVITIES	-	29,631,470	29,631,470	-
Total Expenses-Primary Government	73,634,222	29,631,470	103,265,692	-
Component Unit:				
Reading Parking Authority				
Parking	-	-	-	5,707,656
CHANGE IN NET ASSETS	(1,390,770)	11,416,880	10,026,110	2,674,468
NET ASSETS-BEGINNING	21,864,737	44,765,795	66,630,532	6,243,720
NET ASSETS-ENDING	20,473,967	56,182,675	76,656,642	8,918,188

City of Reading 2006 General Fund Actual Expenditures



- General Government - 11.76%
- Public Works - 13.08%
- Public Safety - 61.58%
- Culture and Recreation - 2.07%
- Debt Service - 10.08%
- Community Development - 0.63%
- Other - 0.08%

City of Reading 2007 General Fund Actual Expenditures



- General Government - 11.62%
- Public Works - 12.32%
- Public Safety - 57.30%
- Community Development - 0.06%
- Culture and Recreation - 2.01%
- Debt Service - 12.38%
- Non-Departmental - 1.66%
- Other Financing Uses - 2.65%

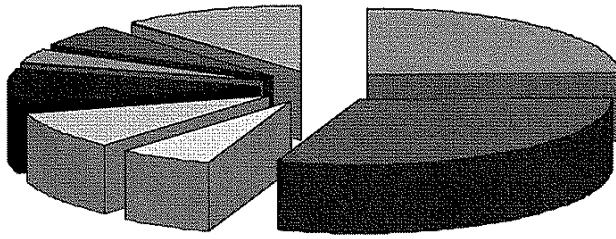
Total General Government which consists of the Office of the Mayor, City Council, City Auditor, Office of the Managing Director, City Clerk, Department of Finance, Department of Human Resources and the Department of Law. 2007 witnessed a slight increase in the cost of maintaining General Government services, as \$7,609,568 was ultimately expended. This represents \$38,912 above the budgeted amount of \$7,609,568. Modest overages in personnel costs are responsible for General Government services going over budget. In 2006, General Government services were \$38,599 less than budget.

In 2006 Public Works was over budget by \$749,545 there were two main factors in Public Works going over budget. The first factor was the cost of oil. Oil prices for 2006 had increased more than anticipated and because of our inelasticity in demand for oil expenditures increased significantly. The second factor was the flood that hit the City in the summer. The flood caused personnel and material expenditures to be higher than we could have expected.

In 2007 Public Works expenditures were \$8,209,450, which represents a budget overrun of \$338,119. While increases in fuel costs were accurately anticipated and properly budgeted for, personnel costs – most notably a \$218,678 budget overrun in the Parks Division -- exceeded budgeted amounts by \$495,484. It should be noted that the budget overrun in the Parks Division can be attributed to the adoption of a park and playground security program. This program was not envisioned at the time of the 2007 Budgets adoption and was not budgeted for.

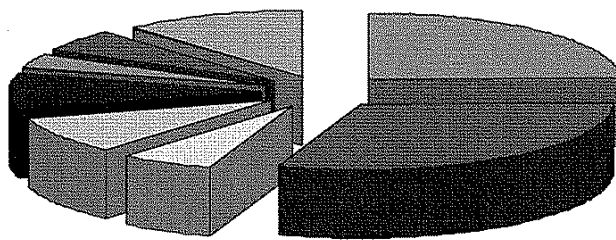
In 2006, Public Safety overspent their budget by \$1,585,916. Public Safety consists of Police, Fire and EMS. Public Safety expenditures in 2007 were \$38,003,708, which represents a budget overrun of \$858,595. In 2007, as in prior years, personnel expenses continue to be the major factor in Public Safety budget overruns. While personnel costs continue to rise, the departments which comprise the public safety category were able to achieve modest operating savings in 2007.

***City of Reading 2006 General Fund
Actual Revenues***



- Real Estate Taxes – 28.77%
- Act 511 Taxes – 34.85%
- Licenses, Permits & Fines – 8.74%
- Intergovernmental – 10.38%
- Charges for Services – 10.26%
- Interest & Rent – 2.84%
- Other – 4.16%
- Other Financing Sources

***City of Reading 2007 General Fund
Actual Revenues***



- Real Estate Taxes – 24.70%
- Act 511 Taxes – 30.49%
- Licenses, Permits & Fines – 6.26%
- Intergovernmental – 9.08%
- Charges for Services – 8.89%
- Interest & Rent – 3.76%
- Other Revenue – 5.28%
- Other Financing Sources – 11.54%

The City has several sources of revenue. The largest single portion of the City of Reading's general fund budget comes from real estate taxes. Just to show the sheer volume of expenses, the Public Safety's actual expenditures for 2007 were \$38 million dollars, resulting in the actual real estate tax revenues of \$15.38 million being more than \$22 million dollars short of covering the expenses for Public Safety. The City of Reading's current millage rate, which has remained relatively constant since 1996, is 10.9 mills or .0109 times the assessment value.

The other categories of revenue are Act 511 Taxes (Per Capita, Real Estate Transfer, Earned Income, Occupation Privilege, and Business Privilege Tax), Licenses, Permits and Fines, Intergovernmental, Charges for Services, Interest and Rent, Other, and Other Financing Sources. Act 511 Taxes are permitted by the state and set by local ordinances not to exceed the state level. The 2006 fiscal year end number for Act 511 Taxes was \$18.36 million. The FY 2007 end number for Act 511 Taxes was \$18.98 million, a positive variance of \$612,976. Unfortunately, however, revenue generated by the Real Estate Transfer Tax showed was under budget by \$500,244, which is attributable to decreased volume in real estate transactions. The City remains at the maximum allowable level for the Act 511 Taxes, with the exception of Earned Income and Real Estate Transfer Taxes which can be increased since the City is governed by a Home Rule Charter

Licenses, Permits and Fines are fees set by local ordinances and ended the year at \$3.89 million, which was under budget by \$318,005. This figure also represents a modest decrease from the \$4.61 million generated in 2006. Intergovernmental charges, which were \$5.65 million for FY 2007 are negotiated or donated contributions from other government entities (grants, coordinated services, etc.). Charges for Services are set by local ordinances and are based on the cost of the program or service divided by the number of transactions which occur for each program or service; this category ended the year at \$5.53 million. Interest and rent are competitive rates and contractual obligations from outside parties. The end of the year total was \$2.34 million. Other, which represents such items as sales of property/equipment, direct cost reimbursement, indirect cost reimbursements, interfund transfers, etc. ended the year at \$3.29 million. In each category the City received more revenue than was budgeted, yielding a positive increase of \$2.22 million, in all categories, for FY 2007.

Capital Assets and City Debt:

During 2007, the City of Reading did not engage in any financial transactions; however, capital improvements were made in accordance with the schedule outlined in the City Capital Improvements Plan.

Economic Factors and 2007's Budgets and Rates:

The City of Reading earned income tax was adjusted in the second half of 2007. The rate was increased from 1.7% on January 1, to 2.7%, effective July 1. The increase was due to voter approval of Act 1, which increased the school district portion of the earned income tax by a full one percent. The City continues to collect 1.2% of the earned income tax. The Real Estate Transfer tax remained at the same level as 2006. Property tax remained at 10.9 mills. Pursuant to relevant Federal and State law the City of Reading renewed a non-exclusive and revocable franchise with Comcast Cable. This franchise obligates the franchisee to payment of 5% of gross revenues. The renewed agreement has a term of fifteen years. The City also committed to a study and, if necessary, adjustment of all fines and fees currently assessed; this study will be completed in 2008.

Economic Development remains essential to the long term viability of the City of Reading. Initiatives begun in 2006 were followed through to completion in 2007. Sun Rich Fresh Foods, a food processing facility, was completed in 2007. Work on the RC Theaters 12 Screen Multiplex continued with completion targeted for the summer of 2008. In addition to these projects, the City of Reading Parking Authority, with the support of the City, has invested in a new parking garage that will be located at 2nd and Washington Streets. The City has also committed to making substantial improvements to City Park and the Pagoda, both of which possess incalculable esthetic and historic value. Efforts continue to be made to improve the value of the residential homes, while at the same time promoting the growth of new business.

Contacting the City's Finance Management:

The Management Discussion and Analysis is meant to provide the citizens, taxpayers, customers, vendors, creditors, investors and the legislators with a better understanding of the City's fiscal health. If you have any questions about this report or need additional financial information, please contact Ryan P. Hottenstein, Acting Managing Director at 610-655-6222 or ryan.hottenstein@readingpa.org or 815 Washington Street, Reading PA 19601. If you have any questions concerning the Reading Area Water Authority financial information, please contact Deputy Executive Director, Reading Area Water Authority, 815 Washington Street, Reading PA 19601. If you have any questions concerning the Reading Parking Authority, please contact Lawrence Lee at 610-655-6166 or 635 Franklin Street, Reading, Pa. 19601.

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CITY OF READING
STATEMENT OF NET ASSETS

December 31, 2007

	Primary Government			Component Unit (Reading Parking Authority)
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Current assets				
Cash and cash equivalents	\$ 8,603,764	\$ 12,813,282	\$ 21,417,046	\$ 5,900,759
Investments	6,922,275	213,974	7,136,249	-
Accounts receivable, net	2,104,873	6,817,234	8,922,107	278,354
Taxes receivable, net	2,259,376	-	2,259,376	-
Internal balances	6,290,457	(6,290,457)	-	-
Intergovernmental receivables	3,058,016	2,557,735	5,615,751	-
Inventory	-	707,051	707,051	-
Other current assets	-	131,470	131,470	40,637
Total current assets	<u>29,238,761</u>	<u>16,950,289</u>	<u>46,189,050</u>	<u>6,219,750</u>
Restricted assets				
Cash and investments	385	26,676,379	26,676,764	4,716,258
Other non-current assets				
Unamortized bond discount	-	960,565	960,565	-
Unamortized bond issue costs	1,623,576	1,100,669	2,724,245	663,347
Unamortized loan origination fee	-	-	-	181,779
Notes receivable, noncurrent	32,778,523	-	32,778,523	-
Net pension asset	45,100,946	-	45,100,946	-
Other property asset	-	-	-	159,241
Capital assets				
Land	280,960	2,074,359	2,355,319	2,359,086
Buildings, net of accumulated depreciation	15,651,470	23,427,202	39,078,672	30,246,384
Machinery and equipment, net of accumulated depreciation	9,368,012	4,182,290	13,550,302	458,021
Improvements, net of accumulated depreciation	9,019,929	44,031,669	53,051,598	39,413
Infrastructure, net of accumulated depreciation	2,564,654	-	2,564,654	-
Construction in progress	2,187,435	7,831,379	10,018,814	-
Total other non-current assets	<u>118,575,505</u>	<u>83,608,133</u>	<u>202,183,638</u>	<u>34,107,271</u>
TOTAL ASSETS	<u>\$ 147,814,651</u>	<u>\$ 127,234,801</u>	<u>\$ 275,049,452</u>	<u>\$ 45,043,279</u>

See accompanying notes.

	Primary Government			Component Unit (Reading Parking Authority)
	Governmental Activities	Business-type Activities	Total	
LIABILITIES				
Current liabilities				
Accounts payable	\$ 8,823,057	\$ 1,778,794	\$ 10,601,851	\$ 305,064
Benefits payable	105,473	-	105,473	27,535
Accrued interest	540,787	117,830	658,617	58,188
Deferred revenue	708,456	-	708,456	-
Interest rate swap contract	7,287,190	-	7,287,190	-
Other current liabilities	746,847	75,388	822,235	-
Current portion notes and bonds payable	4,351,737	8,508,751	12,860,488	2,913,832
Total current liabilities	22,563,547	10,480,763	33,044,310	3,304,619
Non current liabilities				
Notes and bonds payable	115,136,264	59,678,078	174,814,342	46,590,362
Unamortized bond premium	-	893,285	893,285	-
Unamortized bond discount	(205,110)	-	(205,110)	-
Deferred loss on bond issuance	(248,692)	-	(248,692)	(3,826,861)
Unamortized interest on capital appreciation bonds	(11,035,356)	-	(11,035,356)	(11,371,176)
Other	250,000	-	250,000	1,428,147
Accrued compensated absences	880,031	-	880,031	-
Total non-current liabilities	104,777,137	60,571,363	165,348,500	32,820,472
TOTAL LIABILITIES	127,340,684	71,052,126	198,392,810	36,125,091
NET ASSETS				
Invested in capital assets, net of related debt	-	36,371,739	36,371,739	-
Restricted for:				
Capital projects	-	3,218,670	3,218,670	-
Unrestricted	20,473,967	16,592,266	37,066,233	8,918,188
TOTAL NET ASSETS	20,473,967	56,182,675	76,656,642	8,918,188
TOTAL LIABILITIES AND NET ASSETS	\$ 147,814,651	\$ 127,234,801	\$ 275,049,452	\$ 45,043,279

CITY OF READING
STATEMENT OF ACTIVITIES
Year Ended December 31, 2007

	Expenses	Indirect Cost Allocation	Program Revenues		
			Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Functions/Programs					
Primary government					
Governmental activities:					
General government	\$ 9,280,081	\$ (1,777,644)	\$ 1,307,009	\$ 3,705,977	\$ -
Public safety:					
Police	26,631,653	-	469,667	2,033,662	-
Fire	9,668,439	-	3,518,273	-	-
EMS	3,634,361	-	3,849,682	338,801	-
Public works - highways and streets	3,001,890	-	48,163	1,319,229	-
Public works - other	6,723,051	-	87,971	73,048	-
Community development	7,920,529	151,730	924,096	5,271,685	-
Culture and recreation	1,706,509	-	645,696	900,000	-
Other	834,359	-	1,519,059	-	-
Debt service - interest	4,233,350	-	-	481,215	-
Total governmental activities	<u>73,634,222</u>	<u>(1,625,914)</u>	<u>12,369,616</u>	<u>14,123,617</u>	<u>-</u>
Business-type activities:					
Water	12,218,809	566,947	20,376,204	70,684	-
Sewer	13,016,474	941,056	23,205,988	143,621	-
Trash and recycling	4,396,187	117,911	4,625,490	556,342	-
Total business-type activities	<u>29,631,470</u>	<u>1,625,914</u>	<u>48,207,682</u>	<u>770,647</u>	<u>-</u>
Total primary government	<u>\$ 103,265,692</u>	<u>\$ -</u>	<u>\$ 60,577,298</u>	<u>\$ 14,894,264</u>	<u>\$ -</u>
Component Unit:					
Reading Parking Authority:					
Parking	<u>\$ 5,707,656</u>	<u>\$ -</u>	<u>\$ 7,769,974</u>	<u>\$ -</u>	<u>\$ -</u>

General Revenues and Transfers:

Taxes:

Property taxes, levied for general purposes

Earned income, franchise, and other taxes, levied for general purposes, net

Investment earnings

Miscellaneous income

Transfers

Total General Revenues and Transfers

Change in Net Assets

Net Assets - Beginning

Net Assets - Ending

See accompanying notes.

Net (Expense) Revenue and Changes in Net Assets			
Governmental Activities	Business-Type Activities	Total	Component Unit (Reading Parking Authority)
\$ (2,489,451)	\$ -	\$ (2,489,451)	\$ -
(24,128,324)	-	(24,128,324)	-
(6,150,166)	-	(6,150,166)	-
554,122	-	554,122	-
(1,634,498)	-	(1,634,498)	-
(6,562,032)	-	(6,562,032)	-
(1,876,478)	-	(1,876,478)	-
(160,813)	-	(160,813)	-
684,700	-	684,700	-
(3,752,135)	-	(3,752,135)	-
(45,515,075)	-	(45,515,075)	-
-	7,661,132	7,661,132	-
-	9,392,079	9,392,079	-
-	667,734	667,734	-
-	17,720,945	17,720,945	-
(45,515,075)	17,720,945	(27,794,130)	-
-	-	-	2,062,318
15,209,153	-	15,209,153	-
19,038,119	-	19,038,119	-
2,748,720	822,931	3,571,651	604,942
-	1,317	1,317	7,208
7,128,313	(7,128,313)	-	-
44,124,305	(6,304,065)	37,820,240	612,150
(1,390,770)	11,416,880	10,026,110	2,674,468
21,864,737	44,765,795	66,630,532	6,243,720
\$ 20,473,967	\$ 56,182,675	\$ 76,656,642	\$ 8,918,188

CITY OF READING
BALANCE SHEET - GOVERNMENTAL FUNDS

December 31, 2007

	General	Community Development
ASSETS		
Cash and cash equivalents	\$ 323,419	\$ 3,111,401
Investments	638,286	-
Accounts receivable	1,615,213	28,807
Taxes receivable, net	1,689,219	-
Interfund receivable	11,430,470	554,531
Intergovernmental receivable	550,000	608,689
Restricted assets - cash and investments	-	-
Notes receivable - noncurrent	-	27,519,932
TOTAL ASSETS	\$ 16,246,607	\$ 31,823,360
LIABILITIES AND FUND BALANCES		
LIABILITIES		
Accounts payable	\$ 2,474,132	\$ 426,647
Payroll withholdings	105,473	-
Interfund payable	7,435,062	2,008,301
Deferred revenue	1,637,795	27,519,932
Other liabilities	496,847	-
TOTAL LIABILITIES	12,149,309	29,954,880
FUND BALANCES		
Reserve for Capital Projects	-	-
Reserve for Debt Service	-	-
Unreserved/Undesignated Fund Balances:		
General Fund	4,097,298	-
Community Development	-	1,868,480
Redevelopment Authority	-	-
Agency Fund	-	-
Liquid Fuels	-	-
TOTAL FUND BALANCES	4,097,298	1,868,480
TOTAL LIABILITIES AND FUND BALANCES	\$ 16,246,607	\$ 31,823,360

See accompanying notes.

Capital Projects	Debt Service	Non-Major Funds	Total Governmental Funds
\$ 1,343,815	\$ 4,463	\$ 3,686,808	\$ 8,469,906
806,053	938,515	1,564,059	3,946,913
-	-	460,853	2,104,873
-	-	-	1,689,219
3,108,435	149,800	429,949	15,673,185
823,032	1,076,295	-	3,058,016
-	-	385	385
4,510,348	3,197,143	-	35,227,423
<u>\$ 10,591,683</u>	<u>\$ 5,366,216</u>	<u>\$ 6,142,054</u>	<u>\$ 70,169,920</u>
\$ 19,442	\$ -	\$ 308,694	\$ 3,228,915
-	-	-	105,473
772,122	-	2,433,439	12,648,924
-	4,273,438	708,456	34,139,621
-	-	-	496,847
791,564	4,273,438	3,450,589	50,619,780
9,800,119	-	-	9,800,119
-	1,092,778	-	1,092,778
-	-	-	4,097,298
-	-	-	1,868,480
-	-	1,078,817	1,078,817
-	-	1,232,621	1,232,621
-	-	380,027	380,027
9,800,119	1,092,778	2,691,465	19,550,140
<u>\$ 10,591,683</u>	<u>\$ 5,366,216</u>	<u>\$ 6,142,054</u>	<u>\$ 70,169,920</u>

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CITY OF READING

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET ASSETS**

December 31, 2007

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS	\$ 19,550,140
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**Amounts reported for governmental activities in the statement
of net assets are different because:**

Capital assets used in governmental activities are not financial resources and therefore, are not reported as assets in governmental funds. The cost of the assets is \$77,644,815 and the accumulated depreciation is \$38,572,355.	39,072,460
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Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures and therefore, are deferred in the funds.	2,453,280
---	-----------

Other long-term loans (receivables) are not available to pay current period expenditures and therefore, are deferred in the funds.	31,793,370
--	------------

Establish allowance for doubtful accounts - property taxes receivable (\$245,328) and other long-term asset receivables (\$2,448,900).	(2,694,228)
--	-------------

Net pension asset established upon long-term financing of unfunded pension obligation to be amortized over future periods when benefit is received.	45,100,946
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Internal service funds used by management to charge the costs of workman's compensation insurance and other insurance to individual funds. The change in net assets of internal service funds is transferred to the governmental funds.	781,274
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Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consists of:

Bond Discount, Net of Amortization	\$ 205,110	
Bond Issuance Costs, Net of Amortization	1,623,576	
Bonds/Notes/Leases Payable	(119,488,001)	
Accrued Interest on Bonds	(540,787)	
Unamortized Interest	11,035,356	
Compensated Absences	(880,031)	
Deferred (Gain/Loss) on Bond Issuance	248,692	(107,796,085)

Interest rate option payment to be amortized over the life of agreement, net of amortization.	(7,287,190)
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Establish liability for legal settlement, not due and payable in the current period.	(500,000)
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TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES	<u><u>\$ 20,473,967</u></u>
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CITY OF READING

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

Year Ended December 31, 2007

	General	Community Development	Capital Projects
Revenues:			
Real estate taxes	\$ 15,384,219	\$ -	\$ -
Act 511 taxes	18,989,234	-	-
Licenses, permits and fines	3,897,845	-	-
Intergovernmental	5,655,580	3,969,183	-
Charges for services	5,534,626	1,682,484	-
Interest and rent	2,345,054	-	50,561
Other	3,293,950	-	-
TOTAL REVENUES	55,100,508	5,651,667	50,561
Expenditures:			
Current:			
General government	7,609,568	-	-
Public safety			
Police	23,715,580	-	-
Fire	10,702,747	-	-
EMS	3,585,381	-	-
Public works - highways and streets	1,529,304	-	-
Public works - other	6,680,146	-	-
Community development	390,555	5,982,533	-
Culture and recreation	1,334,673	-	-
Other	1,100,858	-	-
Capital outlays	-	-	2,156,837
Debt service - principal	3,708,357	-	260,000
Debt service - interest	4,543,238	-	-
TOTAL EXPENDITURES	64,900,407	5,982,533	2,416,837
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(9,799,899)	(330,866)	(2,366,276)
OTHER FINANCING SOURCES (USES)			
Proceeds from note	-	-	2,081,418
Operating transfers in	7,188,684	-	-
Operating transfers out	(1,763,632)	-	(50,559)
TOTAL OTHER FINANCING SOURCES (USES)	5,425,052	-	2,030,859
NET CHANGE IN FUND BALANCES	(4,374,847)	(330,866)	(335,417)
FUND BALANCES - BEGINNING	8,472,145	2,199,346	10,135,536
FUND BALANCES - ENDING	\$ 4,097,298	\$ 1,868,480	\$ 9,800,119

See accompanying notes.

Debt Service	Non-Major Funds	Total Governmental Funds
\$ -	\$ -	\$ 15,384,219
-	-	18,989,234
-	-	3,897,845
-	4,016,327	13,641,090
-	-	7,217,110
16,299	336,806	2,748,720
-	614,078	3,908,028
16,299	4,967,211	65,786,246
-	-	7,609,568
-	557,299	24,272,879
-	231,494	10,934,241
-	-	3,585,381
-	1,270,003	2,799,307
-	42,906	6,723,052
-	1,549,905	7,922,993
-	-	1,334,673
-	-	1,100,858
-	48,371	2,205,208
-	-	3,968,357
-	-	4,543,238
-	3,699,978	76,999,755
16,299	1,267,233	(11,213,509)
-	-	2,081,418
-	-	7,188,684
-	(9,812)	(1,824,003)
-	(9,812)	7,446,099
16,299	1,257,421	(3,767,410)
1,076,479	1,434,044	23,317,550
<u>\$ 1,092,778</u>	<u>\$ 2,691,465</u>	<u>\$ 19,550,140</u>

CITY OF READING

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**

Year Ended December 31, 2007

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS **\$ (3,767,410)**

**Amounts reported for governmental activities in the statement
of activities are different because:**

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period:

Capital Outlays	\$ 5,432,651	
Less: Depreciation Expense	<u>(3,373,769)</u>	2,058,882

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. These include the change of unavailable deferred revenue:

Tax Revenue	(175,066)	
Notes Receivable	<u>(825,526)</u>	(1,000,592)

Issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. However, neither transaction has any issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. Repayment of note principal is an expenditure in the governmental funds, but the repayment reduces long-term transactions in the statement of activities is shown below:

Issuance of Bonds and Notes	(2,081,418)	
Amortization of Bond Discount	(20,371)	
Amortization of Deferred Gains/Losses on Bond Issuance	(27,633)	
Repayment of Bond Principal	3,968,357	
Amortization of Bond Issuance Costs	<u>(81,269)</u>	1,757,666

Interest rate option payment to be amortized over life of agreement		1,086,305
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CITY OF READING

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES -
CONTINUED**

Year Ended December 31, 2007

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest accrued in the statement of activities over the amount due is shown here.

19,302

In the statement of activities, certain operating expenses - compensated absences (vacations and sick days) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used. This amount represents the difference between the amount earned versus the amount used.

(82,463)

Internal service funds are used by management to charge the cost of insurance bond related claims to individual funds. Net revenues over expenditures were allocated back equitably to governmental activities.

661,274

Pension expense amortized to fund unfunded actuarial pension accrued liability in excess of the annual required contribution.

(2,373,734)

Settlement awarded, but not payable in the current period

250,000

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES

\$ (1,390,770)

CITY OF READING

**STATEMENT OF FUND NET ASSETS
PROPRIETARY FUNDS**

Year Ended December 31, 2007

	Water Fund	Sewer Fund	Non-Major Enterprise Fund (Recycling)	Total Enterprise Funds	Internal Service Funds
ASSETS					
Current assets					
Cash and cash equivalents	\$ 7,939,599	\$ 3,627,701	\$ 1,245,982	\$ 12,813,282	\$ 133,858
Investments	110,717	103,257	-	213,974	2,975,362
Accounts receivable, net of allowance of \$2,596,700 in the enterprise funds	3,015,732	2,692,844	1,108,658	6,817,234	112
Interfund receivables	2,577,364	2,828,156	338,888	5,744,408	2,098,109
Intergovernmental receivables	70,684	2,487,051	-	2,557,735	-
Other receivables	126,470	-	-	126,470	-
Prepaid expenses	5,000	-	-	5,000	-
Inventory	707,051	-	-	707,051	-
Total current assets	14,552,617	11,739,009	2,693,528	28,985,154	5,207,441
Restricted assets					
Cash and investments	26,676,379	-	-	26,676,379	-
Other noncurrent assets					
Unamortized bond discount	249,829	710,736	-	960,565	-
Unamortized bond issue costs	1,025,855	74,814	-	1,100,669	-
Land	2,059,359	15,000	-	2,074,359	-
Buildings	7,789,674	38,216,252	-	46,005,926	-
Improvements	48,431,791	25,943,841	-	74,375,632	-
Machinery and equipment	6,212,873	7,172,093	526,506	13,911,472	-
Construction in progress	5,650,672	2,180,707	-	7,831,379	-
Less: accumulated depreciation	(33,553,496)	(28,942,044)	(156,329)	(62,651,869)	-
Total other noncurrent assets	37,866,557	45,371,399	370,177	83,608,133	-
TOTAL ASSETS	\$ 79,095,553	\$ 57,110,408	\$ 3,063,705	\$ 139,269,666	\$ 5,207,441

See accompanying notes.

	Water Fund	Sewer Fund	Non-Major Enterprise Fund (Recycling)	Total Enterprise Funds	Internal Service Funds
LIABILITIES					
Current liabilities					
Accounts payable	\$ 470,753	\$ 994,216	\$ 313,825	\$ 1,778,794	\$ 344,338
Interfund payables	5,550,438	4,124,647	2,359,780	12,034,865	1,812,340
Accrued interest	117,830	-	-	117,830	-
Accrued claims	-	-	-	-	2,269,489
Escrow deposits	75,388	-	-	75,388	-
Current portion notes and bonds payable	2,533,401	5,975,350	-	8,508,751	-
Total current liabilities	8,747,810	11,094,213	2,673,605	22,515,628	4,426,167
Noncurrent liabilities					
Unamortized bond premium	893,285	-	-	893,285	-
Notes and bonds payable	49,885,809	9,792,269	-	59,678,078	-
Total noncurrent liabilities	50,779,094	9,792,269	-	60,571,363	-
TOTAL LIABILITIES	59,526,904	20,886,482	2,673,605	83,086,991	4,426,167
NET ASSETS					
Invested in capital assets, net of related debt	5,839,596	30,161,966	370,177	36,371,739	-
Restricted for capital projects	3,218,670	-	-	3,218,670	-
Unrestricted net assets (accumulated deficit)	10,510,383	6,061,960	19,923	16,592,266	781,274
TOTAL NET ASSETS	19,568,649	36,223,926	390,100	56,182,675	781,274
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 79,095,553</u>	<u>\$ 57,110,408</u>	<u>\$ 3,063,705</u>	<u>\$ 139,269,666</u>	<u>\$ 5,207,441</u>

CITY OF READING

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUNDS**

Year Ended December 31, 2007

	Water Fund	Sewer Fund	Non-Major Enterprise Fund (Recycling)
OPERATING REVENUES			
Charges for services	\$ 19,756,129	\$ 23,205,988	\$ 4,525,365
Other	620,075	-	100,125
TOTAL OPERATING REVENUES	20,376,204	23,205,988	4,625,490
OPERATING EXPENSES			
Personnel	3,683,950	3,931,239	214,764
Depreciation and amortization	1,747,773	2,122,873	77,841
Other	4,747,077	6,127,679	4,190,596
TOTAL OPERATING EXPENSES	10,178,800	12,181,791	4,483,201
NET OPERATING INCOME (LOSS)	10,197,404	11,024,197	142,289
NONOPERATING REVENUES (EXPENSES)			
Grants	70,684	143,621	556,342
Interest income	818,392	4,539	-
Interest expense	(1,715,123)	(907,104)	-
Other	(23,198)	1,317	(30,897)
NET NONOPERATING REVENUES (EXPENSES)	(849,245)	(757,627)	525,445
INCOME (LOSS) BEFORE CONTRIBUTIONS AND OPERATING TRANSFERS	9,348,159	10,266,570	667,734
Operating transfers in	-	-	-
Operating transfers out	(4,111,199)	(4,754,384)	-
NET INCOME	5,236,960	5,512,186	667,734
NET ASSETS (ACCUMULATED DEFICIT), BEGINNING OF YEAR	14,331,689	30,711,740	(277,634)
NET ASSETS, END OF YEAR	\$ 19,568,649	\$ 36,223,926	\$ 390,100

See accompanying notes.

Total Enterprise Funds	Internal Service Funds
\$ 47,487,482	\$ -
720,200	28,568
48,207,682	28,568
7,829,953	54,784
3,948,487	-
15,065,352	2,974,712
26,843,792	3,029,496
21,363,890	(3,000,928)
770,647	-
822,931	161,300
(2,622,227)	-
(52,778)	-
(1,081,427)	161,300
20,282,463	(2,839,628)
-	3,500,902
(8,865,583)	-
11,416,880	661,274
44,765,795	120,000
<u>\$ 56,182,675</u>	<u>\$ 781,274</u>

CITY OF READING
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

Year Ended December 31, 2007

	Water Fund	Sewer Fund	Non-Major Enterprise Fund (Recycling)
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ 19,413,102	\$ 22,713,702	\$ 4,159,711
Cash payments to employees for services	(3,683,950)	(3,931,239)	(214,764)
Cash payments to suppliers for goods and services	(4,501,145)	(2,055,393)	(3,756,757)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	11,228,007	16,727,070	188,190
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Nonoperating revenues/expenses, net	(22,469)	1,317	(30,897)
Grants	-	143,621	556,342
Operating transfers in	-	-	-
Operating transfers out	(4,111,199)	(4,754,384)	-
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	(4,133,668)	(4,609,446)	525,445
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES			
Capital contributions	130,000	-	-
Interest paid	(1,093,480)	(907,104)	-
Disbursement from bond proceeds account	4,882,963	-	-
Bonds issuance costs paid	(6,500)	-	-
Payments of long-term debt	(1,717,835)	(2,579,738)	-
NET CASH PROVIDED (USED) BY CAPITAL FINANCING ACTIVITIES	2,195,148	(3,486,842)	-
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property and equipment	(3,299,760)	(2,184,645)	(162,871)
Interest earnings	160,730	4,539	-
Net purchase (redemption) of investments	(10,717)	(4,539)	-
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(3,149,747)	(2,184,645)	(162,871)
NET INCREASE (DECREASE) IN CASH	6,139,740	6,446,137	550,764
CASH AND CASH EQUIVALENTS, (OVERDRAFT), BEGINNING OF YEAR	1,799,859	(2,818,436)	695,218
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 7,939,599</u>	<u>\$ 3,627,701</u>	<u>\$ 1,245,982</u>

See accompanying notes.

Totals	Internal Service Fund
\$ 46,286,515	\$ 90,101
(7,829,953)	(54,784)
<u>(10,313,295)</u>	<u>(3,422,770)</u>
28,143,267	(3,387,453)
(52,049)	-
699,963	-
-	3,500,902
<u>(8,865,583)</u>	<u>-</u>
(8,217,669)	3,500,902
130,000	-
(2,000,584)	-
4,882,963	-
(6,500)	-
<u>(4,297,573)</u>	<u>-</u>
(1,291,694)	-
(5,647,276)	-
165,269	161,300
<u>(15,256)</u>	<u>(278,302)</u>
<u>(5,497,263)</u>	<u>(117,002)</u>
13,136,641	(3,553)
<u>(323,359)</u>	<u>137,411</u>
<u>\$ 12,813,282</u>	<u>\$ 133,858</u>

CITY OF READING

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS - CONTINUED

Year Ended December 31, 2007

	Water Fund	Sewer Fund	Other Enterprise Funds
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating income (loss)	\$ 10,197,404	\$ 11,024,197	\$ 142,289
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation expense	1,747,773	2,122,873	77,841
Amortization of bond issue costs	75,392	110,098	-
Net (increase) decrease in assets:			
Accounts receivable	(974,702)	(492,286)	(465,779)
Other receivables	11,600	-	-
Prepaid expenses	-	-	-
Due from other funds	(529,422)	4,984,206	(95)
Due from other governments	-	(452,501)	-
Inventory	(134,211)	-	-
Net increase (decrease) in liabilities:			
Accounts payable	(293,460)	(440,402)	302,389
Due to other funds	1,127,633	(129,115)	131,545
Accrued claims	-	-	-
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 11,228,007</u>	<u>\$ 16,727,070</u>	<u>\$ 188,190</u>

See accompanying notes.

<u>Totals</u>	<u>Internal Service Fund</u>
\$ 21,363,890	\$ (3,000,928)
3,948,487	-
185,490	-
(1,932,767)	61,533
11,600	-
-	-
4,454,689	706,989
(452,501)	-
(134,211)	-
(431,473)	(217,127)
1,130,063	(633,090)
-	(304,830)
<u>\$ 28,143,267</u>	<u>\$ (3,387,453)</u>

CITY OF READING
STATEMENT OF NET ASSETS - FIDUCIARY FUNDS

December 31, 2007

	Total Trust Funds	Agency Earned Income Tax Fund
ASSETS		
Cash and cash equivalents	\$ 4,100,693	\$ 4,192,118
Investments	180,553,805	2,189,969
Interfund receivable	1,592,160	2,286,168
TOTAL ASSETS	\$ 186,246,658	\$ 8,668,255
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 242,173	\$ 1,582,386
Interfund payable	33,475	864,426
Funds held in escrow	-	6,221,443
TOTAL LIABILITIES	275,648	8,668,255
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	185,971,010	-
TOTAL NET ASSETS AND LIABILITIES	\$ 186,246,658	\$ 8,668,255

CITY OF READING

STATEMENT OF CHANGES IN NET ASSETS - FIDUCIARY FUNDS

Year Ended December 31, 2007

ADDITIONS

Contributions	
Member, city and state contributions	\$ 3,809,267
Investment income	
Interest and dividends	5,325,369
Realized and unrealized gain on sale of investments	<u>7,580,444</u>
TOTAL ADDITIONS	16,715,080

DEDUCTIONS

Benefits, including tax withheld	11,452,195
Administrative expenses	1,043,717
Refunds paid	<u>96,162</u>
TOTAL DEDUCTIONS	<u>12,592,074</u>

NET INCREASE 4,123,006

NET ASSETS HELD IN TRUST FOR

PENSION BENEFITS, BEGINNING OF YEAR 181,848,004

NET ASSETS HELD IN TRUST FOR
PENSION BENEFITS, END OF YEAR \$ 185,971,010

CITY OF READING
NOTES TO FINANCIAL STATEMENTS

December 31, 2007

The City of Reading, Pennsylvania (the City) was founded by Thomas and Richard Penn in 1748, established as a borough in 1783 and incorporated as a city on March 26, 1847. The City operates as a home rule/strong mayor form of government and provides all municipal services to its residents.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Introduction

The accounting policies of the City conform to generally accepted accounting principles as applicable to governmental units. The more significant policies and practices of the City are discussed in subsequent sections of this Note. The remainder of the notes are organized to provide explanations, including required disclosures of the City's financial activities for the year ended December 31, 2007.

Reporting Entity

As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the City (the primary government) and its component units.

The City used guidance contained in GASB Statement No. 14, *The Financial Reporting Entity as amended by GASB Statement No. 39, Determining Whether Certain Organizations are Component Units*, to evaluate the possible inclusion of related entities (authorities, boards, councils, etc.) within its reporting entity. The criteria used by the City for inclusion are financial accountability and the nature and significance of the relationships. In determining financial accountability in a given case, the City reviews the applicability of the following criteria. The City is financially accountable for:

- Organizations that make up the legal City entity.
- Legally separate organizations if City officials appoint a voting majority of the organizations' governing body and the City is able to impose its will on the organization, or if there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the City as defined below.

Impose its will - If the City can significantly influence the programs, projects or activities of, or the level of services performed or provided by, the organization.

Financial benefit or burden - exists if the City (1) is entitled to the organization's resources; (2) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide support to, the organization; or (3) is obligated in some manner for the debt of the organization.

- Organizations that are fiscally dependent on the City. Fiscal dependency is established if the organization is unable to adopt its budget, levy taxes, set rates or charges, or issued bonded debt without approval by the City.

CITY OF READING
NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Based on the foregoing criteria, the reporting entity has been defined to include all criteria for which the City is financially accountable or for which there is another significant relationship. Specific information on the nature of the various potential component units and a description of how the aforementioned criteria have been considered in determining whether or not to include or exclude such units in the City's financial statements are provided in the following paragraphs. Separately published audit reports of the component units, except for the Reading Redevelopment Authority, are available for public inspection in the City's finance office.

Blended Component Units

Some component units, despite being legally separate from the primary government (City), are so intertwined with the primary government that they are, in substance, the same as the primary government and are reported as part of the primary government. The component units reported in this way are the Reading Area Water Authority and the Reading Redevelopment Authority.

Reading Area Water Authority - The authority was formed pursuant to the Municipal Authority Act of 1986 for the purpose of providing certain utility services to the residents of the City, through lease of city-owned assets. The five-member board of directors is appointed by the mayor. The Authority's only financial transaction is the operation of the water operations on behalf of the City. The Authority publishes a separate financial statement and is accounted for in the enterprise funds of the City's financial statements.

Reading Redevelopment Authority - The Redevelopment Authority was established pursuant to the Urban Redevelopment Act of 1945 (Public Law-991). The Redevelopment Authority is administered by a five-member board, all of whom are appointed by the mayor. The Authority was established to provide a broad range of urban renewal and maintenance programs within the City, in addition to coordination of efforts to improve the economic vitality, the housing stock and overall living conditions within the City. The Redevelopment Authority operates on a calendar year. Its financial activity is accounted for in the Special Revenue Fund of the City's financial statements.

Discretely Presented Component Units

Component units which are not blended as part of the primary government are discretely presented, which entails reporting component unit financial data in a column separate from the financial data of the primary government. The component unit presented in this way is the Reading Parking Authority.

Reading Parking Authority - The Authority was incorporated in 1953 under the provisions of the parking authority law. The entire board of directors is appointed by the mayor, and members can be removed from the board at will. The Authority was formed to provide parking facilities to residential and commercial users. The City has agreed to guarantee all of the existing revenue bonds of the Authority.

CITY OF READING
NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Potential Component Units Excluded

Reading Housing Authority - The Housing Authority was established pursuant to the housing authority law to promote the availability of safe and sanitary dwelling accommodations at affordable rents to families of low income. The Housing Authority is administered by a five-member board, all of whom are appointed by the mayor.

The Housing Authority operates low rent subsidized housing projects established within the City. The Authority manages the acquisition of federal and state funds for the construction and/or improvements to low income properties and reviews programs with the landlords to insure compliance with various rules and regulations. The City has no financial accountability over the Authority's operations.

The Housing Authority operates and reports on a fiscal year ending March 31.

School Board and Other Entities

The reporting entity excludes the Reading School District and Reading Area Community College (RACC), both of which operate within the City's geographic boundaries. The School District is a governmental unit with its own elected governing body, and RACC is governed by a board of trustees whose members are appointed by the County of Berks.

Related Organizations

The City Council and mayor are also responsible for appointing the members of several boards, but the City's accountability for these organizations does not extend beyond making appointments. These boards include:

Stadium Commission
Plumbing Board of Examiners
Heating Board of Examiners
Vacant Property Review Committee
Board of Historical and Architectural Review
Board of Health
Electricians Examining Board

The amounts the City appropriated to these organizations during the year ended December 31, 2007, were immaterial to the basic financial statements taken as a whole.

CITY OF READING
NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Government-Wide and Fund Financial Statements

Government-wide Financial Statements

The government-wide financial statements include the statement of net assets and the statement of activities. These statements report financial information for the City as a whole excluding activities such as employee pension plans. The primary government and component unit are presented separately within the financial statements with the focus on the primary government. Individual funds are not displayed, but the statements distinguish governmental activities, generally supported by taxes and City general revenues, from business-type activities, generally financed in whole or in part with fees charged to external customers.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees, fines and forfeitures, and other charges to users of the City's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets and include fees to developers. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

Fund Financial Statements

Fund financial statements are provided for governmental, proprietary, and fiduciary funds. Major individual governmental and enterprise funds are reported in separate columns with composite columns for non-major funds.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The financial statements of the City are prepared in accordance with generally accepted accounting principles (GAAP). The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The City's reporting entity does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

CITY OF READING
NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

The government-wide statements report using the economic resources measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). However, internal eliminations do not include utility services provided to City departments. Reimbursements are reported as reductions to expenses. Proprietary and fiduciary fund financial statements and financial statements of City component units also report using this same focus and basis of accounting, although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax revenues are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

Pension trust funds recognize employer and participant contributions in the period in which contributions are due and the City has made a formal commitment to provide the contributions. Retirement benefits and refunds are recognized when due and payable in accordance with the terms of the plans.

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The City considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported as expenditures in the year due.

Major revenue sources susceptible to accrual include: sales and use taxes, hotel/motel taxes, property taxes, franchise taxes (fees), intergovernmental revenues, and investment income. In general, other revenues are recognized when cash is received.

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as needed. See Note 4 for information describing restricted assets.

CITY OF READING
NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Allocation of Indirect Expenses

The City allocates indirect expenses primarily comprised of central governmental services to operating functions and programs benefiting from those services. Central services include overall City management, centralized budgetary formulation and oversight, accounting, financial reporting, payroll, procurement contracting and oversight, investing and cash management, personnel services, and other central administrative services. Allocations are charged to programs based on use of central services determined by various allocation methodologies. These charges are separately reported in the statement of activities. As a matter of policy, certain functions that use significant central services are not charged for the use of these services. These functions or programs include police, fire, and certain divisions within public services and parks.

Fund Accounting

The accounts of the City are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are summarized by providing a separate set of self-balancing accounts, which include its assets, liabilities, fund equity, revenues and expenses or expenditures as appropriate. Resources are allocated to and accounted for in the individual funds based on the purposes for which they are to be spent.

The three types of funds presented in this report are as follows:

GOVERNMENTAL FUND TYPES - These fund types are used to account for most of the existing governmental functions. The focus is on determination of the financial position and changes in financial position (current financial resources) rather than income determination. The following are major governmental funds:

General Fund: This fund is established to account for resources devoted to financing the general services that the City performs for its citizens. General tax revenues and other sources of revenue used to finance the fundamental operations of the City are included in this fund. The fund is charged with all costs of operating the government for which a separate fund has not been established.

Community Development (Special Revenue Fund): This fund was established to account for the proceeds of specific revenue sources other than special assessments, expendable trusts, or major capital projects that are legally restricted to expenditures for specified purposes.

CITY OF READING
NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Capital Projects Funds: These funds are established to account for major capital expenditures not financed by Enterprise Funds, Internal Service Funds, or Trust Funds.

Debt Service Funds: These funds are established for the purpose of accumulating resources for the payment of interest and principal on long-term general obligation debt other than those payable from Enterprise Funds. The Debt Service Fund also holds notes receivable from other governments for funds advanced from long-term debt. These receivables are offset by deferred revenue to reflect future use of funds received to repay outstanding debt of the City.

PROPRIETARY FUND TYPES - These funds account for operations that are organized to be self-supporting through user charges. The funds included in this category are the Enterprise Funds and Internal Service Funds.

Enterprise Funds: (Water Fund and Sewer Fund are major funds). These funds are maintained to account for activities that are financed and operated in a manner similar to private business, with the intent that the costs (expenses, including depreciation) of providing goods or services on a continuing basis be financed or recovered, primarily through user charges.

Internal Service Funds: Internal Service Funds (Self-Insurance) are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, or to other Governments on a cost-reimbursement basis.

FIDUCIARY FUND TYPES - These funds account for assets held by the City in a trustee capacity or as agent for individuals, other governments and other funds. These funds are as follows:

Pension Trust Funds: These funds were established to provide pension benefits for City employees. The principal revenue source for these funds is employer and employee contributions (includes Police, Fire, and Officers and Employees Trust Funds).

Agency Funds: These funds are the Earned Income Tax Collectors' funds, which accounts for funds held in escrow for the City and other parties.

CITY OF READING
NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Budgetary Data - The City follows the following procedures in establishing the budgetary data reflected in the financial statements:

During September, City department heads are required to submit requested operating budgets to the City Manager for the fiscal year commencing the following January 1. The budgets submitted include proposed expenditures along with a narrative justification for such expenditures. Budgets, as submitted, are subject to a detailed review by the Finance Director and City Manager. This review process, which continues through November, includes meetings with the City Council, comparisons with prior year's spending patterns, and forecasting of future needs.

As required by the Home Rule Charter, the proposed budget is made available for public inspection for at least thirty days prior to the date of adoption, with adoption required by December 31. Subsequent to the budget approval, the City Council adopts the appropriation measures required to put the budget into effect and fix the rate of taxation.

Within 31 days subsequent to the legal adoption of the budget, the Finance Director files a copy of the budget with the Department of Community and Economic Development of the Commonwealth of Pennsylvania. Should supplemental budget appropriations be required, the City Council may, within statutory limitations, authorize the transfer of funds between line items by means of a resolution approved at a regularly scheduled Council meeting. Expenditures may not legally exceed budgeted amounts at the line item level (see Combined Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General, Budgeted Special Revenue and Debt Service Funds).

Annual budgets providing comprehensive appropriations are legally adopted for all Governmental Funds except the Community Development Fund and General Agency Fund, which are both Special Revenue Funds; and the Capital Projects Funds. Budgets are adopted on a modified accrual basis; accordingly, revenues are reported when susceptible to accrual and expenditures are recorded when incurred.

Appropriations in Governmental Funds are encumbered upon issuance of purchase orders, contracts or other forms of legal commitment. Even though goods and services have not been received, the transactions are accounted for as a reservation of fund balances in the year the commitment is made. While appropriations lapse at the end of the year, encumbrances outstanding are reported as reservations of fund balance for subsequent expenditures.

CITY OF READING
NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Compensated Absences - The City allows employees to accumulate sick leave based on contractual agreements. Police accumulate a maximum of 30 days; firemen accumulate a maximum of 105 days; non-uniformed employees accumulate a maximum of 45 days of sick leave. Upon termination, police are paid their accumulated sick leave at their hourly rate. Firemen and non-uniformed employees, upon retirement only, are paid at the rate of \$30 per day and \$20 per day, respectively, for accumulated sick leave. Earned vacation time is generally required to be used within one year of accrual. Additionally, all employees are permitted to accrue compensatory time, paid at their standard hourly rate upon termination.

Compensated absences are reported as accrued on the government-wide, proprietary and component unit financial statements. Governmental funds report only matured compensated absences payable to currently terminating employees and are included in wages and benefits payable.

Cash and Cash Equivalents - The City's reporting entity considers all highly-liquid investments with a maturity of three months or less when purchased to be cash equivalents. Exceptions include the three pension funds which classify cash as cash equivalents in order to appropriately report investment activity.

Investments - For funds other than Pension Trust Funds, State law allows the City to invest in obligations of the United States of America, the Commonwealth of Pennsylvania or any agency or instrumentality of either, which are secured by the full faith and credit of such entity. The law also allows for the City to invest in certificates of deposit of banks, savings and loan associations and savings banks both within and outside the Commonwealth of Pennsylvania provided such amounts are insured by the FDIC or other like insurance and that deposits in excess of such insurance are collateralized by the depository. The State also imposes limitations with respect to the amount of investments in certificates of deposit to the extent that such deposits may not exceed 20% of a bank's total capital surplus or 20% of a savings and loan association's or savings bank's net assets.

The City may also invest in shares of registered investment companies, provided that investments of such companies are in authorized investments as noted above.

The law provides that the City's Pension Trust Funds may be invested in any form or type of investment or financial instrument when determined by the City to be prudent.

Temporary cash investments and investments for all funds, except the Pension Trust Funds, are stated at market value. Investments of the Pension Trust Funds are stated at fair value, in accordance with the provisions of Statement 25 of the Governmental Accounting Standards Board.

Receivables/Payables - Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the year are referred to as "interfund receivables/payables". Any residual balances outstanding between the governmental and business-type activities are reported in the government-wide financial statements as "internal balances".

CITY OF READING
NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Inventories - On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

Inventories of the governmental funds, consisting principally of expendable supplies, are recorded under the purchase method. Inventories are recorded as expenditures when purchased.

Inventories of the enterprise funds are carried at the lower of cost or market, using the first-in, first-out method.

Prepaid Expenses - In both the government-wide and fund financial statements, prepaid expenses are recorded as assets in the specific governmental fund in which future benefits will be derived.

Capital Assets, Depreciation and Amortization - The City's property, plant and equipment, with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. Proprietary capital assets are also reported in their respective financial statements. The government reports infrastructure assets on a network and subsystem basis. Accordingly, the amounts spent for the construction or acquisition of infrastructure assets are capitalized and reported in the government-wide financial statements regardless of their amount. In the case of the initial capitalization of general infrastructure assets (i.e., those reported by governmental activities), the government chose to include all such items regardless of their acquisition date or amount. The government was able to estimate the historical cost for the initial reporting of these assets through backtrending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). As the government constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations, the government values these capital assets at the estimated fair value of the item at the date of its donation.

The City generally capitalizes assets with cost of \$5,000 or more as purchase and construction outlays occur. Assets purchased or constructed with long-term debt may be capitalized regardless of the threshold established. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets, including those of component units, are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

CITY OF READING
NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Estimated useful lives, in years, for depreciable assets are as follows:

Buildings	10 - 40
Machinery and equipment	3 - 25
Improvements	5 - 75
Infrastructure	30 - 50

Capitalized Interest - Interest costs are capitalized when incurred by proprietary funds and similar component units on debt where proceeds were used to finance the construction of assets. Interest earned on proceeds of tax-exempt borrowing arrangements restricted to the acquisition of qualifying assets is offset against interest costs in determining the amount to be capitalized.

Long-Term Debt, Deferred Debt Expense, and Bond Discounts/Premiums - In the government-wide, proprietary, and component unit financial statements, outstanding debt is reported as liabilities. Bond issuance costs, bond discounts or premiums, and the difference between the reacquisition price and the net carrying value of refunded debt are capitalized and amortized over the terms of the respective bonds using a method that approximates the effective interest method.

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures.

Fund Balances - Reserves are those portions of fund balance that are not appropriable for expenditure or legally segregated for a specific future use.

Designated fund balances are established to indicate tentative plans for future financial resource utilization.

Property Taxes - Significant dates on the City's property tax calendar are as follows:

Levy and lien date	January 15
Due dates	By April 30 with 2% discount; by June 30 at face value; and thereafter with 10% penalty

Transfers - Operating transfers between fund types are reported as other financing sources (uses) in each respective fund. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers.

Revenue from State and Federal Sources - Revenues from federal and state agencies designated for payment of specific City expenditures are recognized in the government-wide and fund statement when the related expenditures are incurred. Any excess of revenues or expenditures at the fiscal year-end is recorded as deferred revenue or a receivable, respectively.

CITY OF READING
NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2 - CASH AND CASH EQUIVALENTS AND INVESTMENTS

The City's investment authority for all funds, except Fiduciary Funds, is set by state statute to include: U.S. Treasury Bills, short-term U.S. Government or Agency obligations, deposits in savings accounts, time deposits or share accounts, obligations of the United States or any of its agencies or instrumentalities, obligations of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities and shares of any investment company which invests only in the above or certificates of deposit. Pursuant to Act 72 of the Pennsylvania State Legislature, a depository must pledge assets to secure state and municipal deposits. The pledged assets must at least be equal to the total amount of such assets required to secure all of the public deposits at the depository and may be on a pooled basis. Additionally, all such pledged assets must be delivered to a legal custodian.

Cash

Custodial Credit Risk - Deposit

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The City does not have a policy for custodial credit risk. As of December 31, 2007, \$30,122,471 of the City's bank balance of \$30,722,471 was exposed to custodial credit risk as:

Uninsured and uncollateralized	\$ -
Collateralized with securities held by the pledging financial institution	-
Uninsured and collateral held by the pledging bank's trust department not in the City's name	<u>30,122,471</u>
	<u><u>\$ 30,122,471</u></u>
<u>Reconciliation to Financial Statements</u>	
Uncollateralized amount above	\$ 30,122,471
Plus: insured amount	600,000
Less: outstanding checks	(4,490,814)
Plus: deposits in transit	<u>3,478,200</u>
Total Cash	<u><u>\$ 29,709,857</u></u>

CITY OF READING
NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE 2 - CASH AND CASH EQUIVALENTS AND INVESTMENTS - CONTINUED

Investments

As of December 31, 2007, the City had the following investments:

Investment Type	Fair Market Value	Investment Maturities from December 31, 2007			
		0-3 Years	4-7 Years	8-10 Years	11 plus Years
Federal Home Loan Bk	\$ 161,719	\$ -	\$ 161,719	\$ -	\$ -
Federal Home Loan Mtg Corp	677,885	153,095	396,899	127,891	-
Federal Natl Mtg Assn	518,900	-	518,900	-	-
US Treasury Nts	2,044,754	1,046,170	651,794	346,790	-
US Treasury Bds	34,012	-	-	-	34,012
JP Morgan #C35547	934,764	934,764	-	-	-
	4,372,034	<u>\$2,134,029</u>	<u>\$1,729,312</u>	<u>\$ 474,681</u>	<u>\$ 34,012</u>
Money Market Funds	2,918,285				
Pooled Cash	1,708,227				
Certificates of Deposits	327,672				
	<u>\$ 9,326,218</u>				

Interest Rate Risk

The City does have a formal investment policy that limits maturities in certain investments as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

The City does have an investment policy that would limit its investment choices to certain credit ratings. As of December 31, 2007, the City's investments were rated as:

Investments	Standard & Poor's (Moody's & Fitch)
Federal Home Loan Bk	AAA
Federal Home Loan Mtg Corp	AAA
Federal Natl Mtg Assn	AAA
US Treasury Bds	AAA
US Treasury Nts	AAA
US Treasury Nts Bds	AAA
JP Morgan #C35547	AA

CITY OF READING
NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE 2 - CASH AND CASH EQUIVALENTS AND INVESTMENTS - CONTINUED

Concentration of Credit Risk

The City places no limit on the amount the City may invest in any one issuer. More than 5 percent of the City's investments are in the General Fund, Proprietary Funds (Internal Service), Fiduciary Funds (Earned Income Tax), Non-Major Funds (Redevelopment Authority), Capital Projects, and Debt Service. These investments are 6.8%, 31.9%, 23.5%, 14.4%, 8.6%, and 10.1%, respectively, of the City's total investments. More than 5% of the City's total governmental funds include the General Fund, Non-Major Funds (Agency and Redevelopment Funds), Debt Service and Capital Projects at 16.2%, 39.6%, 23.8% and 20.4%, respectively. In the business-type activities, more than 5% of the investments are in the Proprietary Funds (Internal Service). Investments in the internal service fund are 93.3% of total business-type investments.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. The City has no investment subject to custodial credit risk.

Pension Trust Fund

The pension trust funds' investments are held separately from those of other City funds. Assets in the pension trust funds are stated at fair value. Any premiums or discounts are recognized as a gain or loss upon disposition. The City maintains investment policies that summarize the investment philosophy of the City and establishes investment guidelines and performance objectives for the Police, the paid Firemen, and City Officers and Employees Pension Funds.

As of December 31, 2007, the City had the following cash and investments in its pension trust funds:

<u>Police</u>		<u>Investment Maturities from December 31, 2007</u>			
		<u>Fair</u>	<u>Less than</u>		<u>More than</u>
<u>Cash or Investment Type</u>	<u>Market Value</u>	<u>1 year</u>	<u>1 - 5 years</u>	<u>6 - 10 years</u>	<u>10 years</u>
Corporate Bonds	\$ 10,744,483	\$ 232,928	\$ 5,269,378	\$ 4,960,567	\$ 281,610
Government Bonds	20,927,542	265,694	9,383,685	10,457,632	820,531
Mortgage Backed Securities	116,851	-	81,233	-	35,618
Foreign Bonds	699,424	-	642,669	-	56,755
Gov't Asset Backed Securities	5,068,045	-	-	-	5,068,045
Total Debt Securities	37,556,345	\$ 498,622	\$ 15,376,965	\$ 15,418,199	\$ 6,262,559
Cash and Cash Equivalents	1,532,419				
Equity Mutual Funds	37,599,924				
Total Cash and Other Investments	\$ 76,688,688				

CITY OF READING
NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE 2 - CASH AND CASH EQUIVALENTS AND INVESTMENTS - CONTINUED

Pension Trust Fund - continued

<u>Paid Firemen's</u> <u>Cash or Investment Type</u>	Fair Market Value	Investment Maturities from December 31, 2007		
		0 - 5 years	5 - 10 years	More than 10 years
Asset Backed	\$ 86,928	\$ 86,928	\$ -	\$ -
Corporate Bonds	5,210,780	2,455,343	2,425,538	329,899
Certificates of Deposit	-	-	-	-
Collateralized Mortgage Obligations	40,955	6,206	-	34,749
Foreign Bonds and Notes	336,272	228,557	51,736	55,979
Foreign Government	218,004	218,004	-	-
Agency	727,704	482,137	213,742	31,825
Mortgage Backed	1,740,956	44,368	119,451	1,577,137
Other	150,251	-	-	150,251
Treasuries - Notes and Bonds	4,372,879	2,007,070	2,021,967	343,842
Total Debt Securities	12,884,729	<u>\$ 5,528,613</u>	<u>\$ 4,832,434</u>	<u>\$ 2,523,682</u>
Cash and Cash Equivalents	3,723,220			
Equity Mutual Funds	28,590,438			
	<u>\$ 45,198,387</u>			

<u>Officers & Employees</u>	Fair Market Value	Investment Maturities from December 31, 2007		
		0 - 5 years	5 - 15 years	More than 15 years
Cash and Cash Equivalents	\$ 3,998			
Fixed Funds	30,728,278			
Equity Funds	27,934,454			
	<u>\$ 58,666,730</u>			

CITY OF READING
NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE 2 - CASH AND CASH EQUIVALENTS AND INVESTMENTS - CONTINUED

Credit Risk

The risk that an issuer or other counterparty to an investment will not fulfill its obligation is called credit risk. The pension trust funds have no formal investment policy that would limit its investment choices based on credit ratings by nationally recognized statistical rating organizations. As of December 31, 2007, the pension trust funds' investment in corporate bonds ranged from AAA to BBB-.

Custodial Credit Risk

For deposits and investments, custodial credit risk is the risk that in the event of the failure of the bank or counterparty, the pension trust funds will not be able to recover the value of their deposits or investments or collateral securities that are in the possession of an outside entity. The pension trust funds do not have a formal deposit or investment policy for custodial credit risk. As of December 31, 2007, the City's entire pension balance was exposed to custodial credit risk.

Concentration of Credit Risk

The City places no limit on the amount the City may invest in any one issuer. There were no investments in any pension plan that constituted more than 5% of any of the pension plan net assets available for benefits at December 31, 2007. In addition, the plans did not have any investment transactions with related parties during the year.

Interest Rate Risk

The pension trust funds do not have a formal deposit or investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

NOTE 3 - RECEIVABLES, UNCOLLECTIBLE ACCOUNTS AND DEFERRED REVENUE

Enterprise Receivables, Uncollectible Accounts and Deferred Revenue

Significant receivables include amount due from customers primarily for utility services. These receivables are all due. An allowance for uncollectible accounts is estimated using accounts receivable more than 60 to 90 days depending on the fund. Related amounts are shown in the following table:

	Major Enterprise		Other	Total	Component
	Water	Sewer	Enterprise (Recycling)	Primary Government	Unit
Accounts receivable, gross	\$ 4,024,032	\$ 3,422,995	\$ 2,752,284	\$ 10,199,311	\$ 278,354
Less: amount billed in advance	-	-	785,377	785,377	-
Less: allowance uncollectible accounts	1,008,300	730,151	858,249	2,596,700	-
Net accounts receivable	<u>\$ 3,015,732</u>	<u>\$ 2,692,844</u>	<u>\$ 1,108,658</u>	<u>\$ 6,817,234</u>	<u>\$ 278,354</u>

CITY OF READING
NOTES TO FINANCIAL STATEMENTS

December 31, 2007

**NOTE 3 - RECEIVABLES, UNCOLLECTIBLE ACCOUNTS AND DEFERRED REVENUE -
CONTINUED**

Governmental Receivables, Uncollectible Accounts and Deferred Revenue

Property taxes are levied annually on January 15. Major payments are received January through June 30. Thereafter, taxes collected include a 10% penalty. Lien dates for taxes due is January 15 the following year.

Governmental funds also include significant loans receivable for economic development loans which are collectible in future years.

In the government-wide financial statements, receivables are recorded net of an allowance for uncollectible accounts regardless of when cash will be received. In the fund financial statements, the net amount of property taxes collectible which was measurable and available within 60 days was recognized as revenue and the balance deferred in the fund financial statements.

NOTE 4 - RESTRICTED ASSETS - LIMITED AS TO USE

Pursuant to an Indenture of Trust agreed to by the Redevelopment Fund blended and discretely presented component units, or by law, the following restricted cash and investments are held at December 31, 2007:

	Primary Government			Component Unit
	Redevelopment Fund	Reading Area Water Authority	Total	The Reading Parking Authority
Construction Account	\$ 325	\$ 20,132,239	\$ 20,132,564	\$ -
Debt Service Account	-	2,527,039	2,527,039	51,615
Debt Service Reserve Account	-	3,905,086	3,905,086	4,660,512
Clearing Account	-	35,931	35,931	3,070
Other	-	76,084	76,084	1,061
Total	<u>\$ 325</u>	<u>\$ 26,676,379</u>	<u>\$ 26,676,704</u>	<u>\$ 4,716,258</u>

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2007

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2007 was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 280,960	\$ -	\$ -	\$ 280,960
Construction in progress	1,286,547	900,888	-	2,187,435
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	1,567,507	900,888	-	2,468,395
Capital assets being depreciated:				
Buildings	28,462,920	-	-	28,462,920
Machinery and equipment	25,637,583	4,229,105	-	29,866,688
Improvements	11,330,888	302,658	-	11,633,546
Infrastructure	5,213,266	-	-	5,213,266
Totals at historical cost	70,644,657	4,531,763	-	75,176,420
Less accumulated depreciation for:				
Buildings	12,202,102	609,348	-	12,811,450
Machinery and equipment	18,354,223	2,144,453	-	20,498,676
Improvements	2,154,028	459,589	-	2,613,617
Infrastructure	2,488,233	160,379	-	2,648,612
Total accumulated depreciation	35,198,586	3,373,769	-	38,572,355
TOTAL CAPITAL ASSETS BEING DEPRECIATED, NET	35,446,071	1,157,994	-	36,604,065
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET	<u>\$ 37,013,578</u>	<u>\$ 2,058,882</u>	<u>\$ -</u>	<u>\$ 39,072,460</u>

CITY OF READING
NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE 5 - CAPITAL ASSETS - CONTINUED

Business-Type Activities	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not being depreciated:				
Land	\$ 2,074,359	\$ -	\$ -	\$ 2,074,359
Construction in progress	3,929,662	3,901,717	-	7,831,379
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	6,004,021	3,901,717	-	9,905,738
Capital assets being depreciated:				
Buildings	46,005,926	-	-	46,005,926
Machinery and equipment	13,084,532	1,064,807	(237,867)	13,911,472
Improvements	74,327,880	47,752	-	74,375,632
Totals at historical cost	133,418,338	1,112,559	(237,867)	134,293,030
Less accumulated depreciation for:				
Buildings	21,673,262	905,462	-	22,578,724
Machinery and equipment	9,190,696	776,353	(237,867)	9,729,182
Improvements	28,077,291	2,266,672	-	30,343,963
Total accumulated depreciation	58,941,249	3,948,487	(237,867)	62,651,869
TOTAL CAPITAL ASSETS BEING DEPRECIATED, NET	74,477,089	(2,835,928)	-	71,641,161
BUSINESS-TYPE ACTIVITIES, CAPITAL ASSETS, NET	<u>\$ 80,481,110</u>	<u>\$ 1,065,789</u>	<u>\$ -</u>	<u>\$ 81,546,899</u>

CITY OF READING
NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE 5 - CAPITAL ASSETS - CONTINUED

Component Unit	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 2,359,086	\$ -	\$ -	\$ 2,359,086
Construction in progress	7,813,657	2,501,288	(10,314,945)	-
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	10,172,743	2,501,288	(10,314,945)	2,359,086
Capital assets being depreciated:				
Buildings	35,466,647	10,366,445	-	45,833,092
Machinery and equipment	1,145,218	211,701	-	1,356,919
Improvements	144,620	-	-	144,620
Totals at historical cost	36,756,485	10,578,146	-	47,334,631
Less accumulated depreciation for:				
Buildings	14,618,928	967,780	-	15,586,708
Machinery and equipment	810,243	88,655	-	898,898
Improvements	101,958	3,249	-	105,207
Total accumulated depreciation	15,531,129	1,059,684	-	16,590,813
TOTAL CAPITAL ASSETS BEING DEPRECIATED, NET	21,225,356	9,518,462	-	30,743,818
COMPONENT UNIT, CAPITAL ASSETS, NET	<u>\$31,398,099</u>	<u>\$12,019,750</u>	<u>\$ (10,314,945)</u>	<u>\$ 33,102,904</u>

Depreciation expense was charged to functions of the primary government as follows:

<u>Governmental Activities</u>		<u>Business-type Activities</u>	
General government	\$ 1,426,407	Water system	\$ 1,747,773
Public safety:		Sewer system	2,122,873
Police	680,938	Recycling	77,841
Fire	453,959		
Public works - highway/streets	162,994		<u>\$ 3,948,487</u>
Community development	152,017		
Culture and recreation	497,454		
	<u>\$ 3,373,769</u>		

CITY OF READING
NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE 6 - INTERFUND RECEIVABLES AND PAYABLES AND TRANSFERS

The City had interfund receivables and payables balances for the following accounts at December 31, 2007:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Governmental Activities		
Major Funds		
General	\$ 11,430,470	\$ 7,435,062 *
Community Development	554,531	2,008,301
Capital Projects	3,108,435	772,122
Debt Service	149,800	-
Non-major Governmental Funds	429,949	2,433,439
Internal Service	2,098,109	1,812,340
Business-Type Activities		
Major Funds		
Water	2,577,364	5,550,438
Sewer	2,828,156 *	4,124,647
Non-major Proprietary Funds	338,888	2,359,780 *
	<u>23,515,702</u>	<u>26,496,129</u>
Fiduciary and Agency Funds	<u>3,878,328</u>	<u>897,901</u>
	<u><u>\$ 27,394,030</u></u>	<u><u>\$ 27,394,030</u></u>

* Portion not expected to be repaid in the current year.

Interfund receivables and payables are a result of necessary borrowings to cover cash flow needs. At this time, the payable in the general fund is not expected to be repaid in the current year due to financial difficulties.

CITY OF READING
NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE 6 - INTERFUND RECEIVABLES AND PAYABLES AND TRANSFERS - CONTINUED

The City had operating transfers in and out for the following amounts at December 31, 2007:

	<u>Operating Transfers In</u>	<u>Operating Transfers Out</u>
Governmental Activities		
Major Funds:		
General	\$ 7,188,684	\$ 1,763,632
Capital Projects	-	50,559
Non-major Governmental Funds	-	9,812
Internal Service Funds	3,500,902	-
Business-Type Activities		
Major Funds:		
Water	-	4,111,199
Sewer	-	4,754,384
	<u>\$ 10,689,586</u>	<u>\$ 10,689,586</u>

Transfers and payments within the reporting entity are substantially for the purpose of subsidizing operating functions, funding capital projects and asset acquisitions or maintaining debt service on a routine basis.

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2007

NOTE 7 - LIABILITIES

	Balance at Beginning of Year	Additions	Deductions	Balance at End of Year	Due Within One Year
Governmental Activities					
<u>Bonds Payable</u>					
Obligation under agreement with Washington County Authority, Municipal Facilities Lease Revenue Bonds, Series 1985A-1 through 1985C-1, Subseries B.	\$ 6,700,000	\$ -	\$ 300,000	\$ 6,400,000	\$ 400,000
1998 Obligation under agreement with York General Authority - Adjustable rate pooled revenue bonds, with interest payable monthly calculated based on the Weekly Interest Rate payable through 2010.	1,727,770	-	383,500	1,344,270	401,700
General Obligation Bonds, Series of 2002, (Capital Appreciation Bonds) with 2.75% - 5.75% interest payable through 2019. Proceeds of the bonds were used to finance capital project and bond issuance costs.	25,715,000	-	260,000	25,455,000	190,000
General Obligation Bonds, Series of 2002, 5.4% - 6.0% interest payable through 2015. Proceeds were used to redeem City's General Obligation Bonds, Second Series of 1992.	13,226,183	-	1,835,119	11,391,064	1,933,953
General Obligation Note, Series of 2005, 3.0% - 3.75% interest payable through 2019. Proceeds of the notes were used to advance refund the General Obligation Bonds, Second Series of 1998.	13,305,403	-	57,800	13,247,603	94,906
Federally Taxable General Obligation Bonds, Series of 2006, 4.85% - 5.42% interest payable through 2031. Proceeds of the notes were used to fund the City's unfunded pension fund actuarial accrued liabilities.	48,740,000	-	890,000	47,850,000	1,055,000
Line of Credit General Obligation Note, Series of 2006 with a maximum principal amount of \$8,000,000 to be drawn, 7% interest payable through 2029. Proceeds of the note were used to fund capital improvements.	1,590,584	2,081,418	-	3,672,002	-
Guaranteed Lease Revenue Bonds, Series of 2003 (Redevelopment Authority) with 2.50% - 4.25% interest payable through 2033. Proceeds used to finance construction of public works facility.	3,895,000	-	90,000	3,805,000	95,000

CITY OF READING
NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE 7 - LIABILITIES - CONTINUED

	Balance at Beginning of Year	Additions	Deductions	Balance at End of Year	Due Within One Year
Governmental Activities					
<u>Bonds Payable</u>					
Federally Taxable Guaranteed Lease Revenue Notes, Series of 2006 (Redevelopment Authority) with 6.10% interest payable through 2026. Proceeds used to finance the City's 2006 pension costs.	6,475,000	-	151,938	6,323,062	181,178
Compensated absences	797,568	82,463	-	880,031	-
TOTAL	122,172,508	2,163,881	3,968,357	120,368,032	4,351,737
Less: unamortized interest on Capital Appreciation Bonds	(11,059,866)	-	(24,510)	(11,035,356)	(25,443)
Total Governmental Activities	<u>\$ 111,112,642</u>	<u>\$ 2,163,881</u>	<u>\$ (3,943,847)</u>	<u>\$ 109,332,676</u>	<u>\$ 4,326,294</u>
Business-Type Activities					
<u>Bonds and Notes Payable</u>					
General Obligation Bonds, Series of 2002, 5.4% - 6.0% interest, payable through 2015. Proceeds were used to redeem City's General Obligation Bonds, Second Series of 1992.	\$ 9,603,817	\$ -	\$ 1,969,881	\$ 7,633,936	\$ 2,091,047
General Obligation Note, Series of 2005, 3.0% - 3.75% interest, payable through 2019. Proceeds of the notes were used to advance refund General Obligation Bonds, Series of 1998.	1,814,597	-	372,200	1,442,397	395,094
Note payable to Pennsylvania Infrastructure Investment Authority with interest at 1% payable through 2012.	6,645,282	-	1,283,393	5,361,889	1,296,286
General Authority - Adjustable rate pooled revenue bonds, with interest payable monthly calculated based on the Weekly Interest Rate payable through 2010.	10,942,230	-	2,566,500	8,375,730	2,688,300
Line of Credit General Obligation Note, Series of 2006 with a maximum principal amount of \$25,000,000 to be drawn at a floating rate at 68% of one-month LIBOR plus 1.5% interest payable through 2008. Proceeds of the note were used to fund sewer capital improvements.	77,710	1,536,435	-	1,614,145	1,614,145

CITY OF READING
NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE 7 - LIABILITIES - CONTINUED

	Balance at Beginning of Year	Additions	Deductions	Balance at End of Year	Due Within One Year
Business-Type Activities					
<u>Bonds and Notes Payable - continued</u>					
Note payable to bank with interest at a variable rate (0.9765% at December 31, 2003). Interest and principal payments due quarterly through 2011.	364,243	-	79,508	284,735	82,943
Note payable to Pennsylvania Infrastructure Investment Authority, 3.2% - 4% interest payable through 2018.	1,963,163	-	145,031	1,818,132	150,936
Guaranteed Water Revenue Bonds, Series of 2002, 1.4% - 4.4% interest payable through 2017.	2,440,000	-	185,000	2,255,000	190,000
Guaranteed Water Revenue Bonds, Series of 2003 (Capital Appreciation Bonds), 3.60% - 4.62% interest payable through 2020.	21,080,000	-	-	21,080,000	-
Guaranteed Water Revenue Bonds, Series of 2007, 4.25% - 5% interest payable through 2027.	-	25,000,000	-	25,000,000	-
	54,931,042	26,536,435	6,601,513	74,865,964	8,508,751
Less: unamortized interest on Capital Appreciation Bonds	(7,261,640)	-	(582,505)	(6,679,135)	-
TOTAL	<u>\$ 47,669,402</u>	<u>\$ 26,536,435</u>	<u>\$ 6,019,008</u>	<u>\$ 68,186,829</u>	<u>\$ 8,508,751</u>
Component Unit:					
Revenue Bonds Payable					
Guaranteed Authority Revenue Bonds, Series of 1993. The bonds were current interest and capital appreciation bonds (CAB). In 2003, \$9,550,000 of remaining current interest bonds were refunded. The remaining CABs have imputed interest of 5.85% to 6.10%. Final payment is due in 2020.	\$ 38,615,000	\$ -	\$ 2,765,000	\$ 35,850,000	\$ 2,765,000

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2007

NOTE 7 - LIABILITIES - CONTINUED

<u>Component Unit:</u>	<u>Balance at Beginning of Year</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at End of Year</u>	<u>Due Within One Year</u>
Revenue Bonds Payable					
Less: unamortized interest on Capital Appreciation Bonds	(12,971,396)	-	(1,600,220)	(11,371,176)	-
Deferred loss on early retirement of debt	(4,060,654)	-	(233,793)	(3,826,861)	-
	<u>21,582,950</u>	<u>-</u>	<u>930,987</u>	<u>20,651,963</u>	<u>2,765,000</u>
<u>Component Unit</u> <u>Other Long-Term Debt</u>					
Guaranteed Parking Revenue note payable to a local bank for \$1,570,000. \$44,250 was drawn on the note as of December 31, 2006, and the balance will be drawn as needed to pay construction expenses. The note is 4.3% per annum through 2014, and repayment is in 2024.	44,250	1,525,750	-	1,570,000	-
Guaranteed Parking Revenue note payable to a local bank for \$10,000,000. \$75,000 was drawn on the note as of December 31, 2004, and the balance will be drawn as needed to pay construction expenses. The note is 70% of the bank's prime rate, and repayment begins in 2006.	9,974,405	20,595	75,000	9,920,000	75,000
Note payable to City of Reading which is non-interest bearing with annual principal payments of \$1,000 through 2074.	68,221	-	-	68,221	3,000

CITY OF READING
NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE 7 - LIABILITIES - CONTINUED

Component Unit - continued <u>Other Long-Term Debt - continued</u>	<u>Balance at Beginning of Year</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at End of Year</u>	<u>Due Within One Year</u>
Loans payable to City of Reading, one of \$375,000 bearing interest at 6.02% with 26 annual payments of \$28,316, including interest and one for \$800,000 non-interest bearing in 30 annual payments of \$26,667. Payment only made when cash flow is available.	800,000	-	-	800,000	-
Capital lease with the City of Reading, whereby the Authority will pay an amount to the City for a term of years coinciding with the Pooled Capital Program of the Washington County Authority.	1,111,619	-	35,324	1,076,295	67,749
Capital lease with the Reading Redevelopment Authority, whereby the Authority will pay \$1,667 monthly to the RRA for a term of 25 years for a parcel of land at 2nd & Washington Streets.	220,655	-	977	219,678	3,083
Total Other Long-Term Debt	12,219,150	1,546,345	111,301	13,654,194	148,832
Total Notes Payable	<u>\$ 33,802,100</u>	<u>\$ 1,546,345</u>	<u>\$ 1,042,288</u>	<u>\$ 34,306,157</u>	<u>\$ 2,913,832</u>

CITY OF READING
NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE 7 - LIABILITIES - CONTINUED

The annual requirements to pay principal and interest on all long-term debt outstanding at December 31, 2007, are as follows:

	Governmental Activities		Business-Type Activities		Component Unit	
	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$ 4,351,737	\$ 4,773,034	\$ 8,508,751	\$ 2,379,826	\$ 2,930,749	\$ 510,987
2009	8,276,728	4,564,081	7,097,465	2,080,191	2,939,495	507,515
2010	4,858,823	4,098,438	7,329,525	1,768,807	2,950,242	503,377
2011	6,470,200	3,879,385	3,312,509	1,441,336	2,955,989	499,218
2012	7,641,116	3,609,789	2,685,551	1,370,526	2,968,247	494,821
2013 - 2017	40,531,714	14,322,884	13,872,163	6,398,417	14,696,417	2,406,551
2018 - 2022	18,232,996	9,999,953	14,505,000	5,767,381	14,567,156	2,203,936
2023 - 2027	15,244,687	6,273,903	17,555,000	2,719,000	4,830,000	314,962
2028 - 2032	13,650,000	1,975,748	-	-	98,333	15,224
2033 - 2037	230,000	9,775	-	-	5,000	-
2038 - 2042	-	-	-	-	5,000	-
2043 - 2047	-	-	-	-	5,000	-
2048 - 2052	-	-	-	-	5,000	-
2053 - 2057	-	-	-	-	5,000	-
2058 - 2062	-	-	-	-	5,000	-
2063 - 2067	-	-	-	-	5,000	-
2068 - 2072	-	-	-	-	5,000	-
2073 - 2074	-	-	-	-	1,221	-
Unscheduled	-	-	-	-	800,000	-
Less capital lease interest	-	-	-	-	(273,655)	-
	<u>\$ 119,488,001</u>	<u>\$ 53,506,990</u>	<u>\$ 74,865,964</u>	<u>\$ 23,925,484</u>	<u>\$ 49,504,194</u>	<u>\$ 7,456,591</u>

The Reading Area Water Authority has an unused letter of credit of \$800,000 as of December 31, 2007.

NOTE 8 - DERIVATIVE FINANCIAL INSTRUMENTS

Objective of the Derivative

The City uses derivative financial instruments to manage the risk that changes in interest rates will affect the amount of future interest payments.

CITY OF READING
NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE 8 - DERIVATIVE FINANCIAL INSTRUMENTS - CONTINUED

Terms, Fair Values and Credit Risk

The terms, including the credit ratings of the outstanding swaps (swaptions) as provided by the counterparty as of December 31, 2007 are included in the following table:

Product Type/ Original Notional	Outstanding Notional	Effective Date	Maturity Date	Underlying Index	Market Value
Active SWAP (USD 15,800,000.00)	14,690,000	9/15/2006	11/15/2016	USD/Floating - 58% of 30 day Libor USD/Floating/BMA/1W	\$ (260,755)
Not Active SWAPTION (USD 18,595,000.00)	-	5/15/2012	11/15/2019	USD/Floating/BMA/1W USD/Fixed 5.097%	(703,786)
SWAP (USD 25,000,000.00)	-	11/3/2009	11/1/2029	USD/Floating - 72% of 30 days Libor USD/Fixed 5.35%	(4,252,147)
SWAP (USD 50,000,000.00)	-	11/6/2008	11/1/2033	USD/Floating - 72% of 30 day Libor USD/Fixed 4.848%	(6,527,720)
SWAP (USD 21,080,000.00)	21,080,000	7/1/2005	11/1/2020	USD/Floating - 67% of 30 day Libor USD/Floating/BMA/1W	(204,339)
SWAP (USD 21,080,000.00)	21,080,000	6/1/2006	11/1/2020	USD/Floating - CMS 5YR USD/Floating - 67% of 30 day Libor	177,814

CITY OF READING
NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE 8 - DERIVATIVE FINANCIAL INSTRUMENTS - CONTINUED

Market Value

The market values as of December 31, 2007 are included in the table. The market values were estimated by using a calculated mathematical approximation of market value derived from proprietary models as of a given date.

Credit risk

The City is exposed to credit risk in the amount of the derivatives fair value. At the present time since the swaps have negative values, the City is not exposed to credit risk. The current credit rating of Wachovia Bank, the counterparty, is Aa1, AA, and AA- by Moody's, Standard and Poor's and Fitch, respectively.

Basis risk

Basis risk is the risk that the interest rate paid by the City on underlying variable rate bonds to bondholders temporarily differs from the variable swap rate received from the counterparty.

Tax risk

Tax risk is a specific type of basis risk. Tax risk is a permanent mismatch between the interest rate paid on the City's underlying variable-rate bonds and the rate received on the swap caused by a reduction or elimination in the benefits of the tax exemption for municipal bonds, e.g. a tax cut that results in an increase in the ratio of tax-exempt to taxable yields. The City is receiving a percentage of LIBOR (a taxable index) on the swap and would experience a shortfall relative to the rate paid on its bonds if marginal income tax rates decrease relative to expected levels, thus increasing the overall cost of its synthetic fixed rate debt.

Termination risk

The City or the counterparty may terminate any of the swaps if the other party fails to perform under the terms of the respective contracts. If any of the swaps are terminated, the associated variable-rate bonds would no longer be hedged to a fixed rate. If at the time of termination the swap has a negative fair value, the City would be liable to the counterparty for a payment equal to the swap's fair value.

During the year, the City terminated five swaps for a total cost of \$266,500, including the termination fees and consulting costs. Subsequent to year end, the City terminated the swap for \$21,080,000 with an effective date of June 1, 2006 at no cost to the City.

CITY OF READING
NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE 9 - CITY OF READING RETIREMENT PLANS

Plan Descriptions. The City of Reading has three contributing defined benefit single-employer pension plans covering police, paid firemen, and officers and employees respectively; the City of Reading Police Pension Plan (PPP), the City of Reading Paid Firemen's Pension Plan (PFPP) and the City of Reading Non-Uniformed Employees' Pension Plan (NEPP). Each plan provides retirement, disability and death benefits to plan members and beneficiaries. PA Act 205 and City Council ordinance assign the authority to establish and amend benefit provisions to the Board of Trustees of each retirement plan. The Plans are considered part of the City's financial reporting entity and are included in the City's financial statements as Pension Trust Funds.

Funding Policy and Annual Pension Cost. The Board of Trustees of each plan establishes and may amend the contribution requirements of plan members and the City. The City's annual pension cost for the current year and related information for each plan is as follows:

	PPP	PFPP	NEPP
Contribution rates:	Minimum Municipal Obligation under PA Act 205		
City			
Plan members	5% plus \$1 per month	5% plus \$5 per month	3%
Annual pension cost	\$ 3,203,156	\$ 1,209,423	\$ 616,822
Contributions made	\$ 1,054,474	\$ 537,686	\$ -

Actuarial methods and assumptions. The following is information as of the most recent actuarial valuation:

	PPP	PFPP	NEPP
Valuation Date	01/01/07	01/01/07	01/01/07
Actuarial Cost Method	Entry Age Normal	Entry Age Normal	Entry Age Normal
Amortization Method	Level Dollar, open	Level Dollar, closed	Level Dollar, open
Remaining Amortization Period			
Asset Valuation Method	Market Value	Market value as Determined by Trustees	Fair Market Value
Actuarial Assumptions			
Investment rate of return	7.5%	8%	8%
Projected salary increases	5%	6%	5%
Includes inflation - at	-	Included in rates above	3%
Cost of living adjustment	-	-	-

CITY OF READING
NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE 9 - CITY OF READING RETIREMENT PLANS - CONTINUED

Fiscal Year	Annual Required Contribution	Percentage Contributed
POLICE PENSION FUND	\$ 2,497,175	100%
2005	3,496,057	100%
2006	3,203,156	33%
2007		
FIREMEN'S PENSION FUND		
2005	1,479,698	100%
2006	1,268,949	100%
2007	1,209,423	44%
OFFICERS' AND EMPLOYEES' PENSION FUND		
2005	1,337,185	100%
2006	1,650,339	100%
2007	616,822	0%

Funded Status and Funding Progress. The funded status of each plan as of January 1, 2007, the most recent actuarial valuation date is as follows:

	Actuarial Value of Assets (a)	Entry Age Actuarial Accrued Liability (AAL)(b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a/c)
PPP	\$ 81,188,059	\$ 88,275,688	\$ 7,087,629	92.00%	\$ 11,186,195	63.36%
PFPP	47,326,524	48,343,372	1,016,848	97.90%	7,187,428	14.10%
NEPP	57,572,084	57,081,669	(490,415)	100.86%	14,190,597	(3.50)%

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the AAL for benefits.

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2007

NOTE 10 - POST-EMPLOYMENT BENEFITS

The City provides certain healthcare benefits for retired employees. All full-time police and fire employees may be eligible for benefits if actively employed by the City immediately prior to retirement. The benefits, which differ for police and fire employees, are provided in accordance with labor agreements. The cost of the post-employment benefits is recognized as an expenditure at the time it is paid. These post-employment benefits totaled \$1,674,233 in 2007.

NOTE 11 - COMMITMENTS AND CONTINGENCIES

In the normal course of business, the City is subject to various contingent liabilities arising from litigation. The City does not anticipate future losses resulting from these transactions to be material to the City's financial statements, except as disclosed in Note 14.

Under the terms of federal and state grants, periodic audits are required and the allowability of certain costs may be questioned under the terms of the grants. Such audits could lead to reimbursement to the grantor agencies. City management believes such disallowances, if any, will be immaterial.

The City has in effect three labor agreements, which cover approximately 90% of the total labor force. The collective bargaining agreement with AFSCME - The American Federation of State, County and Municipal Employees expired on December 31, 2007 and an extension was finalized through December 31, 2011. The Reading Lodge #9 Fraternal Order of Police's labor agreement will be in effect through December 31, 2011. The labor agreement with the International Association of Fire Fighters, Local 1803 will be in effect through December 31, 2010.

The water fund has entered into several contracts for capital improvements. At December 31, 2007, the balance of open contracts is \$1,421,014.

CITY OF READING
NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE 12 - RISK MANAGEMENT AND SELF-INSURANCE

The City is exposed to various risks of losses related to torts; theft, damage, destruction of assets, errors and omissions; injuries to employees, and natural disasters. The City manages these risks through self-insurance and coverage from commercial insurance companies for excess liabilities. The table below outlines the limits and deductibles for these lines of coverage:

	Carrier	2007	
		Limit	Deductible
Property	St. Paul Travelers	\$ 205,675,204	\$ 100,000
Liability	St. Paul Travelers	1,000,000	150,000
Crime	St. Paul Travelers	1,000,000	10,000
Auto Liability	St. Paul Travelers	1,000,000	150,000
Auto Property Damage	St. Paul Travelers	4,507,915	10,000
Excess Liability	St. Paul Travelers	4,000,000	10,000
Law Enforcement	Scottsdale	2,000,000	150,000
Employment Practices	Scottsdale	1,000,000	150,000
Public Officials	Scottsdale	2,000,000	100,000

The City of Reading is recognized and meets the qualifications of the Pennsylvania Department of Labor and Industry as a Self Insured Workers' Compensation Employer. As part of the qualifications to maintain self insured status, the City of Reading purchases excess workers' compensation coverage for police claims that exceed \$1,000,000 and all other claims that exceed \$400,000. This insurance policy is underwritten by Safety National Casualty Corporation. The City also is required to maintain a trust for outstanding liabilities for workers' compensation. That trust is in the amount of \$1,777,830.

CITY OF READING
NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE 12 - RISK MANAGEMENT AND SELF-INSURANCE - CONTINUED

Activity of the self-insurance program including liability exposure is accounted for in the Self-Insurance Internal Service Fund (the Fund). The Fund is responsible for collecting interfund premiums, paying claim settlements and purchasing other specified insurance policies. Claims settled and loss expense are accrued in the Fund for estimated reported claims. This fund has a net asset balance of \$120,000 reserved for a sick leave pool.

The City had an actuarial study performed to estimate the workers' compensation liability. Based on past experience, management of the City believes incurred, but not reported claims to be immaterial and therefore, has not established an accrual for such claims at December 31, 2007. An analysis of claims activity is presented below:

	<u>Beginning of Year Liabilities</u>	<u>Estimated Current Year Claims</u>	<u>Actual Claim Payments</u>	<u>Balance at Fiscal Year End</u>
2007	<u>\$ 2,574,319</u>	<u>\$ 3,500,902</u>	<u>\$ 3,805,732</u>	<u>\$ 2,269,489</u>

Employee Benefit

The City pays premiums for certain employee benefits such as health and life insurance, in accordance with stipulations of collective bargaining agreements. Such expenditures are not accounted for through the self-insurance fund, but rather are allocated to the particular fund that record the related payroll expenditures. Total expense for these employee benefits for the year ended December 31, 2007 was \$9,371,313.

NOTE 13 - FUND EQUITY AND CHANGE IN FUND BALANCES

Reservations of fund balances of governmental funds are established to either (1) satisfy legal covenants that require that a portion of the fund balance be segregated or (2) identify the portion of the fund balance that is not appropriable for future expenditures. Specific reservations of the fund balance accounts are summarized below:

Reserve for capital projects - It includes \$9,800,119, of monies in the Capital Projects Fund for reserved capital project improvements.

Reserve for debt service - The reserve for debt service was created to segregate a portion of the fund balance account for debt service, including both principal payments and interest payments. The reservation was established to satisfy legal restrictions imposed by various bond agreements.

CITY OF READING
NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE 14 - SETTLEMENTS

NPDES Permit Violations

The City has negotiated a settlement with the U.S. Environmental Protection Agency (EPA) and the Commonwealth of Pennsylvania Department of Environmental Protection (PADEP) regarding alleged violations of the Clean Water Act and the Clean Streams Law. The City is required to pay a total civil penalty of \$239,000 to EPA and PADEP within one year of the date of entry of the consent decree. Additional penalties are stipulated for failure to comply with the terms of the consent decree. Also, the City is required to implement supplemental environmental projects (SEP's) at a minimum cost of \$733,000.

In 2002, an expense and related liability of \$750,000 was recorded in the sewer fund. Most of the projects were completed at December 31, 2007, and the remaining liability represents costs to be incurred in future periods for the maintenance of these projects.

Civil penalty	\$ 239,000
SEP expenses	<u>733,000</u>
	972,000
Expense paid	<u>(872,000)</u>
Estimated expense still outstanding	<u><u>\$ 100,000</u></u>

Litigation Settlement

The City approved settling a federal lawsuit for an amount of \$750,000, payable in three annual installments due December 2007, 2008, and 2009. The first installment of \$250,000 was paid at December 31, 2007

NOTE 15 - SUBSEQUENT EVENT

In January, 2008, the City approved to issue a series of general obligation bonds for \$5,900,000 to refund the Washington County Authority's outstanding municipal facilities Lease Revenue Bonds, Series of 1985 A-1 Sub-series B.

In May, 2008, the City approved to issue a series of general obligation bonds for \$6,750,000 to refund the obligations of the City related to the City of York General Authority's outstanding revenue bonds Sub-series 96-A.

CITY OF READING
NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE 16 - NEW ACCOUNTING STANDARDS

The Government Accounting Standards Board has issued Statement No. 45, Accounting and Financial Reporting by Employees for Post-Employment Benefit Plans Other than Pension Plans, Statement No. 49, Accounting and Financial Reporting for Pollution Remediation Obligations and Statement No. 51, Accounting and Financial Reporting for Intangible Assets, all of which are effective in future years. These statements require the City to address estimated post-employment liabilities pollution remediation obligations and intangible assets and their respective accounting treatment. The City is required to implement Statements No. 45 and 49 by the year ended December 31, 2008 and Statement No. 51 by the year ended December 31, 2010. The City has not yet determined the full impact that adoption of these Statements will have on the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF READING

BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND

Year Ended December 31, 2007

	General Fund			
	Original Budget	Final Budget	Actual	Variance
Revenues:				
Real estate taxes	\$ 15,470,873	\$ 15,470,873	\$ 15,384,219	\$ (86,654)
Act 511 taxes	18,376,258	18,376,258	18,989,234	612,976
Licenses, permits and fines	4,215,850	4,215,850	3,897,845	(318,005)
Intergovernmental	5,251,800	5,251,800	5,655,580	403,780
Charges for services	4,684,570	4,684,570	5,534,626	850,056
Interest and rent	2,279,892	2,279,892	2,345,054	65,162
Other	2,593,073	2,593,073	3,293,950	700,877
TOTAL REVENUES	52,872,316	52,872,316	55,100,508	2,228,192
Expenditures:				
Current:				
General government	7,578,911	7,570,656	7,609,568	(38,912)
Public safety				
Police	23,355,898	23,355,898	23,715,580	(359,682)
Fire	10,468,390	10,476,645	10,702,747	(226,102)
EMS	3,312,570	3,312,570	3,585,381	(272,811)
Public works: highways and streets	1,291,237	1,309,037	1,529,304	(220,267)
Public works: other	6,580,094	6,562,294	6,680,146	(117,852)
Community development	298,742	298,742	390,555	(91,813)
Culture and recreation	1,325,540	1,325,540	1,334,673	(9,133)
Other	2,791,998	2,791,998	1,100,858	1,691,140
Debt service - principal	1,893,859	1,893,859	3,708,357	(1,814,498)
Debt service - interest	2,334,583	2,334,583	4,543,238	(2,208,655)
TOTAL EXPENDITURES	61,231,822	61,231,822	64,900,407	(3,668,585)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(8,359,506)	(8,359,506)	(9,799,899)	(1,440,393)
OTHER FINANCING SOURCES (USES)				
Operating transfers in	7,805,000	7,805,000	7,188,684	(616,316)
Operating transfers out	(1,763,632)	(1,763,632)	(1,763,632)	-
TOTAL OTHER FINANCING SOURCES (USES)	6,041,368	6,041,368	5,425,052	(616,316)
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	\$ (2,318,138)	\$ (2,318,138)	(4,374,847)	\$ (2,056,709)
FUND BALANCE (ACCUMULATED DEFICIT), BEGINNING OF YEAR			8,472,145	
FUND BALANCE, END OF YEAR			\$ 4,097,298	

CITY OF READING
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS

December 31, 2007

I. SCHEDULES OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Entry Age Actuarial Accrued Liability (AAL)(b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
POLICE PENSION FUND						
01/01/03	43,823,323	58,403,692	14,580,369	75.0%	9,656,468	151.02%
01/01/05	48,078,705	68,124,235	20,045,530	70.6%	10,069,858	199.06%
01/01/07	81,188,059	88,275,688	7,087,629	92.0%	11,186,195	63.36%
PAID FIREMEN'S PENSION FUND						
01/01/03	29,346,110	34,142,374	4,796,264	86.0%	7,147,263	67.1%
01/01/05	35,284,932	39,418,713	4,133,781	89.5%	8,026,617	51.5%
01/01/07	47,326,524	48,343,372	1,016,848	97.9%	7,187,428	14.1%
OFFICERS' AND EMPLOYEES' PENSION FUND						
01/01/03	37,920,154	49,181,881	11,261,727	77.10%	12,181,677	(92.4%)
01/01/05	39,767,213	53,054,485	13,287,272	74.96%	11,880,781	111.8%
01/01/07	57,572,084	57,081,669	(490,415)	100.86%	14,190,597	(3.5%)

II. SCHEDULES OF EMPLOYER CONTRIBUTIONS

Fiscal Year	Annual Required Contribution	Percentage Contributed
POLICE PENSION FUND		
2005	2,497,175	100%
2006	3,496,057	100%
2007	3,203,156	33%
FIREMEN'S PENSION FUND		
2005	1,479,698	100%
2006	1,268,949	100%
2007	1,209,423	44%
OFFICERS' AND EMPLOYEES' PENSION FUND		
2005	1,337,185	100%
2006	1,650,339	100%
2007	616,822	0%

CITY OF READING
REQUIRED SUPPLEMENTARY INFORMATION - CONTINUED
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

December 31, 2007

II. Notes to Required Supplementary Information

Budgetary Comparison Schedule

The budgetary comparison schedule for the general fund is prepared using the modified accrual basis of accounting which is the same basis used to report actual expenditures.

The Community Development fund is a major fund, but had no legally adopted budget, therefore, no schedule is included in this report.

SUPPLEMENTARY INFORMATION

CITY OF READING
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES - BUDGETARY BASIS -
GENERAL FUND

Year Ended December 31, 2007

	Original Budget	Final Budget	Actual	Variance
REAL ESTATE TAXES	\$ 15,470,873	\$ 15,470,873	\$ 15,384,219	\$ (86,654)
ACT 511 Taxes				
Per capita tax	90,000	90,000	78,866	(11,134)
Per capita tax - prior years	9,000	9,000	13,323	4,323
Real estate transfer tax	7,215,868	7,215,868	6,715,624	(500,244)
Earned income tax	8,131,390	8,131,390	8,850,005	718,615
Occupation tax	1,450,000	1,450,000	1,596,829	146,829
Occupation tax - prior years	15,000	15,000	57,354	42,354
Business privilege tax	1,290,000	1,290,000	1,465,523	175,523
Business privilege tax - prior years	175,000	175,000	211,710	36,710
Total Act 511 Taxes	18,376,258	18,376,258	18,989,234	612,976
LICENSES, PERMITS AND FINES				
Food permits	50,000	50,000	67,695	17,695
Building and electrical	755,000	755,000	753,224	(1,776)
Trades licenses	90,000	90,000	121,959	31,959
Business privilege	285,000	285,000	242,789	(42,211)
Street and pavement	55,250	55,250	48,163	(7,087)
Zoning and land development	85,000	85,000	117,765	32,765
Housing	825,000	825,000	251,347	(573,653)
Tax administration licenses	18,800	18,800	18,176	(624)
Franchise fees	700,000	700,000	673,828	(26,172)
No parking signs	1,600	1,600	1,950	350
Traffic fines	470,000	470,000	361,841	(108,159)
Penalties and interest	80,000	80,000	116,449	36,449
District court	750,000	750,000	1,066,617	316,617
Pre-settlement inspection fee	-	-	(1,050)	(1,050)
Other	50,200	50,200	57,092	6,892
Total Licenses, Permits and Fines	4,215,850	4,215,850	3,897,845	(318,005)
INTERGOVERNMENTAL				
Payments in lieu of taxes	100,000	100,000	106,647	6,647
Malt and liquor tax	45,000	45,000	34,550	(10,450)
Public utility tax	51,000	51,000	48,885	(2,115)
Snow and ice control	50,000	50,000	46,833	(3,167)
Reading Public Library	900,000	900,000	900,000	-
School guard	250,000	250,000	206,304	(43,696)
Pension - state aid	3,205,800	3,205,800	3,289,757	83,957
Police training	200,000	200,000	126,809	(73,191)
Grant reimbursement - police	450,000	450,000	872,944	422,944
Grant reimbursement - public works	-	-	22,851	22,851
Total Intergovernmental	5,251,800	5,251,800	5,655,580	403,780

CITY OF READING

SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES - BUDGETARY BASIS -
GENERAL FUND - CONTINUED

Year Ended December 31, 2007

	Original Budget	Final Budget	Actual	Variance
CHARGES FOR SERVICES				
Recreational facilities	27,070	27,070	50,121	23,051
Swimming pool	40,000	40,000	45,573	5,573
Pagoda and tower	250	250	6,925	6,675
School district tax collection	514,300	514,300	425,970	(88,330)
Tax certifications	70,000	70,000	93,003	23,003
Admissions fee/tax	600,000	600,000	543,077	(56,923)
Police services	261,200	261,200	469,667	208,467
Fire services	211,150	211,150	433,562	222,412
Ambulance services	2,599,850	2,599,850	3,084,711	484,861
Housing Authority	162,500	162,500	108,564	(53,936)
Redevelopment Authority	18,000	18,000	18,000	-
Public works	106,500	106,500	73,048	(33,452)
Other	73,750	73,750	182,405	108,655
Total Charges for Service	4,684,570	4,684,570	5,534,626	850,056
INTEREST AND RENT				
Interest on investments	352,892	352,892	900,568	547,676
CD bond interest	175,000	175,000	217,448	42,448
Stadium rental	22,000	22,000	33,000	11,000
Building rental	55,000	55,000	41,257	(13,743)
Parking Authority	1,400,000	1,400,000	481,428	(918,572)
Greater Berks	275,000	275,000	671,353	396,353
Total Interest and Rent	2,279,892	2,279,892	2,345,054	65,162
OTHER				
Sale of city property	-	-	34,275	34,275
Refund of prior year expenses	2,000	2,000	12,467	10,467
Recovery of damages	25,000	25,000	130,757	105,757
Indirect cost reimbursement:				
Community development	248,871	248,871	151,730	(97,141)
Recycling	93,402	93,402	117,911	24,509
Sewer	745,000	745,000	941,056	196,056
Water	580,000	580,000	566,947	(13,053)
Direct cost reimbursement - law	30,000	30,000	-	(30,000)
Direct cost reimbursement - planning	20,000	20,000	-	(20,000)
Direct cost reimbursement - code services	250,000	250,000	322,258	72,258
Direct cost reimbursement - community development	105,000	105,000	67,138	(37,862)
Direct cost reimbursement - pension	26,250	26,250	33,475	7,225
Direct cost reimbursement - sewer	130,000	130,000	65,120	(64,880)
Grants and gifts	-	-	128,240	128,240
Other shared revenues	-	-	53,850	53,850
Miscellaneous	337,550	337,550	668,726	331,176
Total Other	2,593,073	2,593,073	3,293,950	700,877
TOTAL REVENUES	52,872,316	52,872,316	55,100,508	2,228,192

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CITY OF READING

**SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES - BUDGETARY BASIS -
GENERAL FUND - CONTINUED**

Year Ended December 31, 2007

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
OTHER FINANCING SOURCES				
Operating transfers in:				
1985 Bond Fund	-	-	17,928	17,928
Capital Reserve City	20,000	20,000	32,631	12,631
General Agency Fund	15,000	15,000	9,812	(5,188)
Water Fund	4,020,000	4,020,000	3,378,313	(641,687)
Sewer Fund	3,750,000	3,750,000	3,750,000	-
Total Other Financing Sources	<u>7,805,000</u>	<u>7,805,000</u>	<u>7,188,684</u>	<u>(616,316)</u>
 TOTAL REVENUES AND OTHER FINANCING SOURCES	 <u><u>\$ 60,677,316</u></u>	 <u><u>\$ 60,677,316</u></u>	 <u><u>\$ 62,289,192</u></u>	 <u><u>\$ 1,611,876</u></u>

CITY OF READING

**SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES - BUDGETARY BASIS -
GENERAL FUND**

Year Ended December 31, 2007

	Original Budget	Final Budget	Actual	Variance
GENERAL GOVERNMENT				
Office of the Mayor				
Personal services	\$ 217,460	\$ 207,460	\$ 199,810	\$ 7,650
Other operating expenditures	44,328	54,328	41,486	12,842
City Council				
Personal services	224,350	224,350	183,234	41,116
Other operating expenditures	84,160	84,160	44,645	39,515
City Auditor				
Personal services	123,690	123,690	122,254	1,436
Other operating expenditures	3,412	3,412	-	3,412
Office of the Managing Director				
Personal services	2,670,023	2,625,907	2,848,750	(222,843)
Other operating expenditures	1,048,831	1,093,947	872,324	221,623
Department of Finance:				
Treasury				
Personal services	172,246	172,246	195,414	(23,168)
Other operating expenditures	16,148	16,148	184	15,964
Office of the Director				
Personal services	291,008	291,008	291,971	(963)
Other operating expenditures	4,984	3,984	4,376	(392)
Purchasing				
Personal services	63,869	63,869	63,111	758
Other operating expenditures	321,250	321,250	326,545	(5,295)
Accounting				
Personal services	287,342	287,342	311,036	(23,694)
Other operating expenditures	10,680	10,680	2,871	7,809
Tax Administration				
Personal services	742,713	742,713	771,496	(28,783)
Other operating expenditures	151,275	143,020	113,581	29,439
Mailroom				
Personal services	22,338	22,338	2,279	20,059
Other operating expenditures	163,000	163,000	87,655	75,345
Information Technology				
Personal services	-	-	29,138	(29,138)
Other operating expenditures	-	-	-	-
Budget Administration				
Personal services	-	-	6,116	(6,116)
Other operating expenditures	-	-	200	(200)
Department of Human Resources				
Personal services	276,021	276,021	328,773	(52,752)
Other operating expenditures	90,281	90,281	78,006	12,275
Department of Law				
Personal services	335,774	335,774	277,227	58,547
Other operating expenditures	213,728	213,728	407,086	(193,358)
TOTAL GENERAL GOVERNMENT	7,578,911	7,570,656	7,609,568	(38,912)

CITY OF READING

**SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES - BUDGETARY BASIS -
GENERAL FUND - CONTINUED**

Year Ended December 31, 2007

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
PUBLIC WORKS				
Department of Public Works:				
Fleet Management				
Personal services	556,720	556,720	569,560	(12,840)
Other operating expenditures	970,249	939,985	954,083	(14,098)
Traffic Engineering				
Personal services	298,603	298,603	229,501	69,102
Other operating expenditures	116,018	186,634	204,783	(18,149)
Public Works Administration				
Personal services	150,809	150,809	157,240	(6,431)
Other operating expenditures	282,509	297,509	213,694	83,815
Engineering				
Personal services	134,478	134,478	265,515	(131,037)
Other operating expenditures	11,730	11,730	5,378	6,352
Streets				
Personal services	1,107,030	1,107,030	1,195,227	(88,197)
Other operating expenditures	184,207	202,007	334,077	(132,070)
Parks				
Personal services	871,513	871,513	1,090,191	(218,678)
Other operating expenditures	219,207	238,169	236,015	2,154
Recreation				
Personal services	613,343	631,343	669,644	(38,301)
Other operating expenditures	127,294	110,442	118,290	(7,848)
Public Property				
Personal services	595,464	595,464	535,532	59,932
Other operating expenditures	1,632,157	1,538,895	1,430,720	108,175
TOTAL PUBLIC WORKS	7,871,331	7,871,331	8,209,450	(338,119)
PUBLIC SAFETY				
Police - Criminal Investigation				
Personal services	4,113,986	4,113,986	4,411,551	(297,565)
Other operating expenditures	118,335	118,335	118,113	222
Police - Special Services				
Personal services	2,372,312	2,372,312	2,210,892	161,420
Other operating expenditures	369,104	369,104	285,590	83,514
Police - Patrol				
Personal services	15,021,322	15,006,322	15,393,695	(387,373)
Other operating expenditures	470,584	470,584	387,745	82,839
Police - Administration				
Personal services	802,463	802,463	833,043	(30,580)
Other operating expenditures	87,792	102,792	74,951	27,841
Fire Administration				
Personal services	561,064	561,064	589,346	(28,282)
Other operating expenditures	75,298	75,298	41,753	33,545
Fire Special Services				
Personal services	257,091	257,091	257,128	(37)
Other operating expenditures	86,405	94,660	45,847	48,813
Fire Suppression				
Personal services	9,139,680	9,139,680	9,504,292	(364,612)
Other operating expenditures	348,852	348,852	264,381	84,471
Fire EMS				
Personal services	2,541,125	2,541,125	2,773,633	(232,508)
Other operating expenditures	771,445	771,445	811,748	(40,303)
TOTAL PUBLIC SAFETY	37,136,858	37,145,113	38,003,708	(858,595)

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CITY OF READING

**SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES - BUDGETARY BASIS -
GENERAL FUND - CONTINUED**

Year Ended December 31, 2007

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
COMMUNITY DEVELOPMENT				
Planning				
Personal services	110,044	110,044	92,117	17,927
Other operating expenditures	41,950	41,950	9,951	31,999
Codes				
Personal services	94,568	94,568	285,867	(191,299)
Other operating expenditures	52,180	52,180	2,620	49,560
TOTAL COMMUNITY DEVELOPMENT	<u>298,742</u>	<u>298,742</u>	<u>390,555</u>	<u>(91,813)</u>
CULTURE AND RECREATION				
Library				
Personal services	1,223,660	1,223,660	1,240,189	(16,529)
Other operating expenditures	101,880	101,880	94,484	7,396
TOTAL CULTURE AND RECREATION	<u>1,325,540</u>	<u>1,325,540</u>	<u>1,334,673</u>	<u>(9,133)</u>
DEBT SERVICE				
Principal	1,893,859	1,893,859	3,708,357	(1,814,498)
Interest	2,334,583	2,334,583	4,543,238	(2,208,655)
TOTAL DEBT SERVICE	<u>4,228,442</u>	<u>4,228,442</u>	<u>8,251,595</u>	<u>(4,023,153)</u>
NON-DEPARTMENTAL				
Payroll and benefits	100,000	100,000	263,848	(163,848)
Other	2,691,998	2,691,998	837,010	1,854,988
TOTAL NON-DEPARTMENTAL	<u>2,791,998</u>	<u>2,791,998</u>	<u>1,100,858</u>	<u>1,691,140</u>
TOTAL EXPENDITURES	<u>61,231,822</u>	<u>61,231,822</u>	<u>64,900,407</u>	<u>(3,668,585)</u>
OTHER FINANCING USES				
Transfers to other funds	1,763,632	1,763,632	1,763,632	-
TOTAL EXPENDITURES AND OTHER FINANCING USES	<u>\$ 62,995,454</u>	<u>\$ 62,995,454</u>	<u>\$ 66,664,039</u>	<u>\$ (3,668,585)</u>

CITY OF READING
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS

December 31, 2007

	Redevelopment Authority	Agency Fund	Liquid Fuels Fund	Totals
ASSETS				
Cash and cash equivalents	\$ 25,112	\$ 2,321,155	\$ 1,340,541	\$ 3,686,808
Investments	1,343,905	220,154	-	1,564,059
Accounts receivable	58	460,795	-	460,853
Interfund receivables	4,816	498,379	(73,246)	429,949
Restricted assets - cash and investments	385	-	-	385
TOTAL ASSETS	\$ 1,374,276	\$ 3,500,483	\$ 1,267,295	\$ 6,142,054
LIABILITIES AND FUND BALANCE				
LIABILITIES				
Accounts payable	\$ 10,956	\$ 220,573	\$ 77,165	\$ 308,694
Interfund payables	284,503	1,338,833	810,103	2,433,439
Deferred revenue	-	708,456	-	708,456
TOTAL LIABILITIES	295,459	2,267,862	887,268	3,450,589
FUND BALANCES				
Unreserved	1,078,817	1,232,621	380,027	2,691,465
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,374,276	\$ 3,500,483	\$ 1,267,295	\$ 6,142,054

CITY OF READING

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
NON-MAJOR GOVERNMENTAL FUNDS**

Year Ended December 31, 2007

	Redevelopment Authority	Agency Fund	Liquid Fuels Fund	Totals
REVENUES				
Intergovernmental	\$ -	\$ 2,743,931	\$ 1,272,396	\$ 4,016,327
Interest and rent	87,033	193,755	56,018	336,806
Other	614,078	-	-	614,078
TOTAL REVENUES	701,111	2,937,686	1,328,414	4,967,211
EXPENDITURES				
Public safety				
Police	-	557,299	-	557,299
Fire	-	231,494	-	231,494
Public works - highways and streets	-	-	1,270,003	1,270,003
Public works - other	-	42,906	-	42,906
Community development	-	1,549,905	-	1,549,905
Capital outlays	48,371	-	-	48,371
TOTAL EXPENDITURES	48,371	2,381,604	1,270,003	3,699,978
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	652,740	556,082	58,411	1,267,233
OTHER FINANCING USES				
Operating transfers out	-	(9,812)	-	(9,812)
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	652,740	546,270	58,411	1,257,421
FUND BALANCES, BEGINNING OF YEAR	426,077	686,351	321,616	1,434,044
FUND BALANCES, END OF YEAR	\$ 1,078,817	\$ 1,232,621	\$ 380,027	\$ 2,691,465

CITY OF READING
COMBINING BALANCE SHEET - ALL CAPITAL PROJECTS FUNDS

December 31, 2007

	Capital Reserve Fund	#26 Bond Fund	Line of Credit Fund	Totals
ASSETS				
Cash and cash equivalents	\$ 1,593,076	\$ (427,110)	\$ 177,849	\$ 1,343,815
Investments	437,849	368,204	-	806,053
Interfund receivable	1,894,050	1,214,385	-	3,108,435
Intergovernmental receivable	823,032	-	-	823,032
Notes receivable - noncurrent	4,510,348	-	-	4,510,348
TOTAL ASSETS	\$ 9,258,355	\$ 1,155,479	\$ 177,849	\$ 10,591,683
LIABILITIES AND FUND BALANCE				
LIABILITIES				
Accounts payable	\$ -	\$ -	\$ 19,442	\$ 19,442
Interfund payables	32,631	739,491	-	772,122
FUND BALANCES				
Reserved for capital project	9,225,724	415,988	158,407	9,800,119
TOTAL LIABILITIES AND FUND BALANCES	\$ 9,258,355	\$ 1,155,479	\$ 177,849	\$ 10,591,683

CITY OF READING

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
ALL CAPITAL PROJECTS FUNDS**

Year Ended December 31, 2007

	Capital Reserve Fund	#26 Bond Fund	Line of Credit Fund	Totals
REVENUES				
Interest and rent	\$ 32,631	\$ 17,930	\$ -	\$ 50,561
EXPENDITURES				
Capital outlays	-	53,475	2,103,362	2,156,837
Debt service - principal	-	260,000	-	260,000
TOTAL EXPENDITURES	-	313,475	2,103,362	2,416,837
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	32,631	(295,545)	(2,103,362)	(2,366,276)
OTHER FINANCING SOURCES (USES)				
Proceeds from note	-	-	2,081,418	2,081,418
Operating transfers in/out	(32,631)	(17,928)	-	(50,559)
EXCESS (DEFICIENCY) OF REVENUES AND FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	-	(313,473)	(21,944)	(335,417)
FUND BALANCES, BEGINNING OF YEAR	9,225,724	729,461	180,351	10,135,536
FUND BALANCES, END OF YEAR	<u>\$ 9,225,724</u>	<u>\$ 415,988</u>	<u>\$ 158,407</u>	<u>\$ 9,800,119</u>

CITY OF READING

COMBINING STATEMENT OF NET ASSETS - FIDUCIARY FUNDS

December 31, 2007

	<u>Police Pension Fund</u>	<u>Paid Firemen's Pension Fund</u>	<u>Officers' and Employees' Pension Fund</u>	<u>Total Fiduciary Funds</u>
ASSETS				
Cash and cash equivalents	\$ 2,206,170	\$ 1,383,603	\$ 510,920	\$ 4,100,693
Investments	76,688,688	45,198,387	58,666,730	180,553,805
Interfund receivables	<u>1,054,474</u>	<u>537,686</u>	<u>-</u>	<u>1,592,160</u>
TOTAL ASSETS	79,949,332	47,119,676	59,177,650	<u><u>\$ 186,246,658</u></u>
LIABILITIES AND NET ASSETS				
LIABILITIES				
Accounts payable	104,476	33,620	104,077	\$ 242,173
Interfund payable	<u>9,708</u>	<u>5,356</u>	<u>18,411</u>	<u>33,475</u>
TOTAL LIABILITIES	<u>114,184</u>	<u>38,976</u>	<u>122,488</u>	275,648
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS				
(A schedule of funding progress for each plan is presented on page 54)	<u><u>\$ 79,835,148</u></u>	<u><u>\$ 47,080,700</u></u>	<u><u>\$ 59,055,162</u></u>	<u>185,971,010</u>
TOTAL NET ASSETS AND LIABILITIES				<u><u>\$ 186,246,658</u></u>

CITY OF READING

COMBINING STATEMENT OF CHANGES IN NET ASSETS - FIDUCIARY FUNDS

Year Ended December 31, 2007

	<u>Police Pension Fund</u>	<u>Paid Firemen's Pension Fund</u>	<u>Officers' and Employees' Pension Fund</u>	<u>Total Fiduciary Funds</u>
ADDITIONS				
Contributions				
Member, city and state contributions	\$ 2,265,341	\$ 998,150	\$ 545,776	\$ 3,809,267
Investment income				
Interest and dividends	3,271,214	1,987,059	67,096	5,325,369
Realized and unrealized gain on sale of investments	<u>2,524,303</u>	<u>193,820</u>	<u>4,862,321</u>	<u>7,580,444</u>
TOTAL ADDITIONS	8,060,858	3,179,029	5,475,193	16,715,080
DEDUCTIONS				
Benefits, including tax withheld	5,247,527	2,653,012	3,551,656	11,452,195
Administrative expenses	435,911	210,284	397,522	1,043,717
Refunds paid	<u>37,352</u>	<u>15,873</u>	<u>42,937</u>	<u>96,162</u>
TOTAL DEDUCTIONS	<u>5,720,790</u>	<u>2,879,169</u>	<u>3,992,115</u>	<u>12,592,074</u>
NET INCREASE	2,340,068	299,860	1,483,078	4,123,006
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS, BEGINNING OF YEAR	<u>77,495,080</u>	<u>46,780,840</u>	<u>57,572,084</u>	<u>181,848,004</u>
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS, END OF YEAR	<u>\$ 79,835,148</u>	<u>\$ 47,080,700</u>	<u>\$ 59,055,162</u>	<u>\$ 185,971,010</u>

CITY OF READING

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

December 31, 2007

Federal Grantor/Pass Through Grantor/Program Title	Source Code	Federal CFDA Number	Grant Period	Grant Contract
U.S. DEPARTMENT OF HOUSING				
CDBG	D	14.218	01/01/05-12/31/05	B05MC420013
CDBG	D	14.218	01/01/06-12/31/06	B06MC420013
CDBG	D	14.218	01/01/07-12/31/07	B07MC420013
ESG	D	14.231		S06MC420006
ESG	D	14.231		S07MC420006
Economic Development Projects	D	14.246	02/22/02-09/30/07	B00ED420034
Economic Development Projects	D	14.246	01/21/03-01/20/08	B02SPPA0634
Brownfields Economic Development Grant	D	14.926	11/01/02-12/01/07	B02BD420038
HOME Program	D	14.239		M03MC420204
HOME Program	D	14.239		M04MC420204
HOME Program	D	14.239		M05MC420204
HOME Program	D	14.239		M06MC420204
HOME Program	D	14.239		M07MC420204
Fair Housing	D	14.401	10/01/04-09/30/05	FF203K063012
Fair Housing	D	14.401	10/01/05-09/30/06	FF203K063012
Fair Housing	D	14.401	10/01/06-9/30/07	FF203K073012
TOTAL U.S. DEPT. OF HOUSING				
U.S. DEPARTMENT OF JUSTICE				
Weed and Seed	D	16.595	10/01/07-9/30/08	2007-WS-Q7-0071
Edward Byrne Memorial Justice Assistance Program	D	16.738	10/01/05-09/30/09	2006-DJ-BX-0287
Bulletproof Vest Partnership	D	16.607	01/01/06-12/31/06	2006
Bulletproof Vest Partnership	D	16.607	01/01/07-12/31/07	2007
Public Safety Partnership and Community Policing	D	16.710	12/08/04-12/07/07	2005-CK-WX-0217
Passed through United Way of Berks County				
222 Corridor Anti-Gang Initiative	I	16.744	06/01/06-5/31/09	2006-PG-BX-0099
TOTAL U.S. DEPT. OF JUSTICE				
FEDERAL EMERGENCY MANAGEMENT AGENCY				
Passed through Pennsylvania Emergency Management Agency				
Public Assistance Grants				
Public Assistance Grant Project #2702	I	97.036	11/13/06-12/30/06	FEMA-1649-DR-PA-011-63624-00
Public Assistance Grant Project #2540	I	97.036	11/13/06-12/30/07	FEMA-1649-DR-PA-011-63624-00
Public Assistance Grant Project #2663	I	97.036	11/13/06-12/30/07	FEMA-1649-DR-PA-011-63624-00
Public Assistance Grant Project #2704	I	97.036	11/13/06-12/30/06	FEMA-1649-DR-PA-011-63624-00
Public Assistance Grant Project #2885	I	97.036	11/13/06-12/30/07	FEMA-1649-DR-PA-011-63624-00
Public Assistance Grant Project #2901	I	97.036	11/13/06-12/30/07	FEMA-1649-DR-PA-011-63624-00
Public Assistance Grant Project #2902	I	97.036	11/13/06-12/30/07	FEMA-1649-DR-PA-011-63624-00
Public Assistance Grant Project #2935	I	97.036	11/13/06-12/30/07	FEMA-1649-DR-PA-011-63624-00
Public Assistance Grant Project #2912	I	97.036	11/13/06-12/31/07	FEMA-1649-DR-PA-011-63624-00
TOTAL FEDERAL EMERGENCY MANAGEMENT AGENCY				
U.S. ENVIRONMENTAL PROTECTION AGENCY				
Brownfield Pilots Cooperative Agreements	D	66.811	10/01/98-10/01/06	BP-99398701-6
U.S. EQUAL EMPLOYMENT OPPORTUNITY COMMISSION				
Equal Employment Opportunity Commission	D	^	10/01/05-09/30/07	5FSPSLP0271
Equal Employment Opportunity Commission	D	^	10/01/07-09/30/08	EECCN080035
TOTAL FEDERAL AWARDS				

^ - It is unknown whether this is federal funding.

Source Codes

I - Indirect

D - Direct

Total Award	Accrued (Deferred) 12/31/06	Amount Received	Revenue Recognized	Expenditures	Accrued (Deferred) 12/31/07
\$ 3,551,366	\$ -	\$ 1,651	\$ 1,651	\$ 1,651	\$ -
3,184,221	394,633	3,058,082	2,663,449	2,663,449	-
3,174,833	-	484,754	776,955	776,955	292,201
136,600	596	85,846	85,250	85,250	-
137,325	-	8,262	17,661	17,661	9,399
1,418,582	(319,740)	-	319,740	319,740	-
400,000	140,577	140,577	-	-	-
1,100,000	-	-	14,972	14,972	14,972
1,110,896	62,701	62,701	-	-	-
1,044,600	-	104,460	104,460	104,460	-
1,059,048	91,937	104,605	334,730	334,730	322,062
999,170	-	-	-	-	-
992,956	-	-	-	-	-
88,330	(68,173)	-	68,173	68,173	-
102,400	(89,900)	12,500	102,400	102,400	-
90,800	-	-	47,016	47,016	47,016
	212,631	4,063,438	4,536,457	4,536,457	685,650
191,999	-	-	27,475	27,475	27,475
87,324	(22,220)	-	-	-	(22,220)
15,466	-	15,466	15,466	15,466	-
25,399	-	-	25,399	25,399	25,399
295,993	(7,707)	-	7,707	7,707	-
-	-	70,104	153,689	153,689	83,585
	(29,927)	85,570	229,736	229,736	114,239
34,213	34,213	34,213	-	-	-
14,534	14,534	14,534	-	-	-
26,564	26,564	26,564	-	-	-
19,807	19,807	19,807	-	-	-
1,911	1,911	1,911	-	-	-
8,671	8,671	8,671	-	-	-
6,239	6,239	6,239	-	-	-
12,970	12,970	12,970	-	-	-
124,376	-	93,627	93,627	93,627	-
	124,909	218,536	93,627	93,627	-
200,000	91,461	91,461	-	-	-
105,200	1,616	-	5,342	5,342	6,958
25,050	-	-	-	-	-
<u>\$ 400,690</u>	<u>\$ 4,459,005</u>	<u>\$ 4,865,162</u>	<u>\$ 4,865,162</u>	<u>\$ 4,865,162</u>	<u>\$ 806,847</u>

CITY OF READING
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
December 31, 2007

NOTE 1 - BASIS OF ACCOUNTING

The Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting which recognizes income in the period it is earned and expenses in the period they are incurred.

NOTE 2 - SUBRECIPIENTS

The City of Reading provided federal awards to subrecipients as follows:

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Provided</u>
Emergency Shelter Grant (ESG)	14.231	\$ 64,125
HOME Program	14.239	444,517



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**Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance
with Government Auditing Standards**

**Members of the Council
City of Reading
Reading, Pennsylvania**

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Reading, as of and for the year ended December 31, 2007, which collectively comprise the City of Reading's basic financial statements, and have issued our report thereon dated July 2, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Reading's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Reading's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting. Significant deficiencies in internal control over financial reporting are described as items 07-1 through 07-12 in the Schedule of Findings and Questioned Costs.

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A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 07-1 through 07-12 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Reading's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as items 07-4, 07-5, 07-6, 07-8, and 07-9.

We also noted certain other matters that we reported to management of the City of Reading in a separate letter dated July 2, 2008.

The City of Reading's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Responses. We did not audit the City of Reading's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the audit committee, management, City Council, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Herbein + Company, Inc.

Reading, Pennsylvania
July 2, 2008



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Report on Compliance with Requirements
Applicable to Each Major Program and Internal
Control Over Compliance in Accordance with
OMB Circular A-133

Members of the Council
City of Reading
Reading, Pennsylvania

Compliance

We have audited the compliance of the City of Reading with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2007. The City of Reading's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Reading's management. Our responsibility is to express an opinion on the City of Reading's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Reading's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City of Reading's compliance with those requirements.

In our opinion, the City of Reading complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2007. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Findings and Questioned Costs as items 07-2 and 07-3.

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Internal Control Over Compliance

The management of the City of Reading is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Reading's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Reading's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the City's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirements of a federal program that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 07-2 and 07-3 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirements of a federal program will not be prevented or detected by the City's internal control. However, we consider the significant deficiencies described above to be material weaknesses.

The City of Reading's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the City of Reading's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the audit committee, management, others within the organization, City Council, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Herbein + Company, Inc.

Reading, Pennsylvania
July 2, 2008

CITY OF READING
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
December 31, 2007

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: unqualified
Internal control over financial reporting:
Material weakness(es) identified? X yes no
Significant deficiency(s) identified not considered to be
material weaknesses? yes X none reported
Noncompliance material to financial statements noted? X yes no

Federal Awards

Internal Control over major programs:
Material weakness(es) identified? X yes no
Significant deficiency(s) identified not considered to be
material weaknesses? yes X none reported
Type of auditor's report issued on compliance for major programs: unqualified
Any audit findings disclosed that are required to be
reported in accordance with Circular A-133, Section .510(a)? X yes no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.218	Community Development Block Grant
14.246	Economic Development Initiatives
16.744	Anti-Gang Initiatives

Dollar threshold used to distinguish between Type A and Type B
programs: \$300,000
Auditee qualified as low-risk auditee? yes X no

CITY OF READING
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

December 31, 2007

Section II - Financial Statement Findings

07-1 MODIFIED ACCRUAL/FULL ACCRUAL BASIS OF ACCOUNTING

Criteria

Reporting in accordance with generally accepted accounting principles requires financial information for governmental funds to be reported on the modified accrual basis of accounting and for proprietary funds to be reported on the full accrual basis of accounting.

Condition/Cause

The Accounting Department records accounts payable throughout the fiscal year, but accounts receivable are only reconciled at year-end. In addition, significant adjustments are posted at year-end to bring numerous funds into compliance with U.S. generally accepted accounting principles.

Effect

Revenues are not being recognized consistently with expenditures and material adjustments are necessary at year-end resulting in inconsistent reporting.

Recommendation

All accounts should be reconciled on a timely basis consistent with reporting as required by U.S. generally accepted accounting principles.

Benefit

Matching revenues to expenditures and reconciling balance sheet accounts for all funds on a routine basis provides for more consistent reporting to provide a more accurate assessment of financial needs.

Management Response

See corrective action plan included in this report package.

07-2 GRANT RECEIPTS

Criteria

The City receives funding from the Department of Housing and Urban Development (HUD) and uses a separate fund for tracking and reporting purposes. The IDIS system is used to communicate information to HUD as well as to draw down the funds and report program income.

Condition/Cause

There continues to be a need for improvement between the Community Development and Finance Departments to enhance the timeliness of IDIS reporting to be more consistent with the general ledger activity.

Effect

The City is not drawing down grant funds as expenditures are incurred and therefore, current resources are not being utilized as effectively as they could be.

CITY OF READING

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

December 31, 2007

07-2 GRANT RECEIPTS - CONTINUED

Recommendation

The CD Fiscal Officer is responsible for the timely draw down of grant funds. It is imperative that the Finance and Community Development Departments communicate to make sure draw downs related to expenditures being processed are drawn down in a timely fashion. Implementation of additional procedures could ensure an increased efficiency in this area.

Benefit

The City will be able to accurately reconcile its HUD funds to the general ledger activity on an ongoing basis.

Management Response

See corrective action plan included in this report package.

07-3 GRANT TRACKING AND MONITORING

Criteria

The City receives special funding for specific projects and uses the general ledger software to track project expenditures related to each funding source. These expenditure reports should be used to report the project status of the grants to the oversight agencies. There were project reports showing balances remaining on program contracts that were shown as unexpended at year-end. These contracts ended during the year, and based on discussion with the Community Development Department, all funds were expended during the project period.

Condition/Cause

The Community Development and Accounting Departments need to work together to communicate recording of expenditures to proper projects and funding sources on the general ledger, as well as to monitor the status of each contract to maintain compliance with grant requirements.

Effect

The City is not appropriately tracking expenditures related to grants in accordance with provisions of grant contracts and capabilities of the general ledger software.

Recommendation

The Community Development and Accounting Departments should work together to monitor grant compliance.

Benefit

The City will maintain compliance with grant requirements.

Management Response

See corrective action plan included in this report package.

CITY OF READING

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

December 31, 2007

07-4 PENSION REPORTING

Criteria

The City reports annual wages related to their active pension plans on Form AG-385 and submits the form to the state. The form is used to assist in the calculation of annual pension funding the City will be receiving from the state.

Condition/Cause

There has been turnover in the Pension Administrator position as well as within the Finance Department, and there have been other priorities plaguing these positions.

Effect

The City will receive state funding for pension obligations based on wages reported on the annual report. If wages are reported in excess of actual wages, the City will be over-funded by the state.

Recommendation

The preparation of the AG-385 should be completed in consideration of actual wages paid and the Internal Auditor's office should oversee the reporting due to the extensive involvement of the Internal Auditor with the pension funds.

Benefit

The City will be more capable of substantiating the AG-385 during state audits if appropriate supporting documentation is maintained. In addition, there is less likely to be excess funds received from the state.

Management Response

See corrective action plan included in this report package.

07-5 PENSION COMPLIANCE

Criteria

The City has made significant changes to the pension plans over the past several years. It is imperative that these changes are made in accordance with state code for third class cities and the City Charter.

Condition/Cause

Numerous benefits have been granted to union employees that were not within the parameters of the established codes.

Effect

The City has granted benefits that are out of compliance with state code and the City Charter. In addition, the City failed to remit minimum municipal obligations to the pension funds during 2007.

CITY OF READING
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

December 31, 2007

07-5 PENSION COMPLIANCE - CONTINUED

Recommendation

State code and the City Charter should be evaluated during negotiations to ensure pension compliance prior to settlement of all union contracts. The City should also monitor requirements for remitting funding obligations to each fund.

Benefit

The City will be in compliance with governing documents related to pension.

Management Response

See corrective action plan included in this report package.

07-6 UNCLAIMED PROPERTY

Criteria

Pennsylvania Statute 72 P.S. 1301 requires an entity to annually file an unclaimed property report to be filed by April 15th.

Condition/Cause

The City did not timely file an unclaimed property report for 2006. The 2006 report was filed in August, 2007. In addition, records related to tax overpayments make it difficult to accumulate a list of overpayments for prior years.

Effect

The City was out of compliance with a state statute.

Recommendation

We recommend that the City evaluate all tax overpayments to determine if there is unclaimed property to be remitted to the State. In addition, the City should begin to annually file an unclaimed property report in a timely fashion.

Benefit

The City would be in compliance with State statute.

Management Response

See corrective action plan.

CITY OF READING
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

December 31, 2007

07-7 SEGREGATION OF DUTIES - BANK RECONCILIATIONS

Criteria

Segregation of duties serves as a check and balance on employees' integrity and to maintain the best control system possible.

Condition/Cause

One individual is responsible for reconciling the two primary general fund checking accounts in addition to overseeing all general ledger functions.

Effect

Inadequate system of checks and balances poses a risk to the City's ability to accurately report its financial information and increases the City's susceptibility to misappropriation of assets.

Recommendation

We recommend that different individuals should perform the separate duties processing entries to the general ledger and performing bank reconciliation functions.

Benefit

An effective internal control system contains several checks and balances to reduce the risk of misappropriation of assets.

Management Response

See corrective action plan.

07-8 DCED REPORTING REQUIREMENTS

Criteria

The Department of Community and Economic Development (DCED) establishes reporting requirements for municipalities. The City did not timely file all of the required reports during 2007.

Condition/Cause

We noted several overdue reports due to DCED in March, 2008, including 2007 Tax Information due on 1/16/07, 2008 Elected and Appointed Officials due on 1/31/08, and 2007 Survey of Financial Conditions due on 3/15/08.

Effect

The City was out of compliance with state requirements.

Recommendation

We recommend that the City monitor mandatory reporting requirements and comply with filing deadlines.

CITY OF READING
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

December 31, 2007

07-8 DCED REPORTING REQUIREMENTS - CONTINUED

Benefit

The City would be in compliance with state statute.

Management Response

See corrective action plan.

07-9 EMPLOYEE RECORDS

Criteria

Federal regulations require the completion of an I-9 form and W-4 form upon the hiring of a new employee. The I-9 form verifies an individual's eligibility to be employed in the United States while the W-4 form determines the federal withholding related to the individual's wages.

Condition/Cause

During our review of a sample of employee records, we noted that numerous I-9 and W-4 forms could not be located by the Human Resource Department.

Effect

The City was out of compliance with federal statutes.

Recommendation

We recommend that the City monitor mandatory reporting requirements and comply with filing deadlines.

Benefit

The City would be in compliance with federal statutes.

Management Response

See corrective action plan.

07-10 JOURNAL ENTRIES

Criteria

The process for entering journal entries into the general ledger software system includes preparation by an employee in the Accounting Department and approval of the Accounting Manager.

Condition/Cause

In performing our audit procedures, we noted several posted journal entries that lacked appropriate management approval.

CITY OF READING
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

December 31, 2007

07-10 JOURNAL ENTRIES - CONTINUED

Effect

The City was not following appropriate processing procedures and was made susceptible to inappropriate entries being posted to the general ledger and financial information.

Recommendation

We recommend that the Accounting Manager approve all journal entries prior to posting them to the general ledger.

Benefit

The City would enhance the internal control structure related to journal entry processing.

Management Response

See corrective action plan.

07-11 INFORMATION TECHNOLOGY

Criteria

The City relies on information generated by numerous software packages to make critical operating decisions. Changes to the software and its reports are made by the Information Technology (IT) Department to extract relevant information for analysis and reporting purposes.

Condition/Cause

There are several employees in the IT Department working on numerous projects. Documentation should be retained on changes being made and testing of reports prior to implementation should be done to ensure an accurate and useful final product. Projects should be prioritized and changes evaluated by someone with financial background.

Effect

During 2007, inaccurate reporting generated from software was still a problem. There is improvement, but the critical nature of the area requires that all financial and user data be timely and accurate.

Recommendation

An increased separation of duties and testing prior to implementation would enhance overall internal controls in the IT Department as well as enhance the accuracy of reporting. The addition of a coordinator, with a financial background, to oversee and prioritize departments' requests and to test alterations being made would add an additional level of oversight to the department.

Benefit

With the City's investment in software packages and IT personnel, increased controls and policies could improve overall operation of the IT Department and output of useful and accurate financial reports.

CITY OF READING
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

December 31, 2007

07-12 UTILITY BILLING DATA

Criteria

The City provides various services to its citizens and the surrounding community: water and sewer service, recycling and trash collection, and emergency medical services. Customers are billed for the services rendered, payments are remitted, and the City accounts for this activity. Timely billing process is critical to the cash flow needs of the City.

Condition/Cause

The City spent significant resources on a new billing system which was put in service for the utilities in March, 2005. The software has been utilized during this period, but there continues to be ongoing issues with understanding and properly using the software.

Effect

Billing adjustments need to continue to be made. The subsidiary ledger and bills generated should all agree. Data must be accurate to allow for proper financial reporting.

Recommendation

We recommend that policies and procedures be implemented and that all staff using the software receive appropriate training.

Benefit

It is important for City management to have a clearer understanding of the billing process and more accurate financial reporting.

Management Response

See corrective action plan included in this report package.

Section III - Federal Award Findings and Questioned Costs

- 07-2 Grants and Contributions Finding is also a Federal Award Finding which related to CDBG 14.218 program - Contract BO5MC420013, BO6MC420013 and BO7MC420013.
- 07-3 Grant Tracking and Monitoring Finding is also a Federal Award Finding which related to Economic Development Initiatives 14.246 program - Contract B00ED420034 and B02BD420038.

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FINANCE
DEPARTMENT

CITY OF READING, PENNSYLVANIA

ACCOUNTING & FISCAL MANAGEMENT DIVISION

ROOM 2-51

815 WASHINGTON STREET

READING, PA 19601-3690

(610) 655-6268

06-3 Grants and Contributions Finding is also a Federal Award Finding which related to CDBG 14.218 program - Contract BO4MC420013, BO5MC420013 and BO6MC420013.

Criteria

The City receives funding from the Department of Housing and Urban Development (HUD) and uses a separate fund for tracking and reporting purposes. The IDIS system is used to communicate information to HUD as well as to draw down the funds and report program income.

Condition/Cause

There continues to be a need for improvement between the Community Development and Finance Departments to enhance the timeliness of IDIS reporting to be more consistent with the general ledger activity.

Effect

The City is not drawing down grant funds as expenditures are incurred and therefore, current resources are not being utilized as effectively as they could be.

Recommendation

The CD Fiscal Officer is responsible for the timely draw down of grant funds. It is imperative that the Finance and Community Development Departments communicate to make sure draw downs related to expenditures being processed are drawn down in a timely fashion. Implementation of additional procedures could ensure an increased efficiency in this area.

Benefit

The City will be able to accurately reconcile its HUD funds to the general ledger activity on an ongoing basis.

Management Response

The Accounting Manager will be taking a more active role in monitoring the activity and draw down the HUD funds. Policies and Procedures have been put in place to reconcile the activity between the general ledger and the IDIS system to insure the timeliness and efficiency of all transactions.

Current Status of Corrective Action Plan

See corrective action plan included in this report package.



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FINANCE
DEPARTMENT

CITY OF READING, PENNSYLVANIA

ACCOUNTING & FISCAL MANAGEMENT DIVISION

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July 2, 2008

Commonwealth of Pennsylvania
Office of Budget
Bureau of Audits
P.O. Box 1326
Harrisburg, PA 17105

**Re: Corrective Action Plan
2007 Reportable Conditions**

Dear Sir or Madam:

Please accept the following as our official response and Corrective Action Plan for the reportable conditions identified by our auditors in the City of Reading Annual Audit for the year ending December 31, 2007.

07-1 MODIFIED ACCRUAL BASIS OF ACCOUNTING

Criteria

Reporting in accordance with generally accepted accounting principles requires financial information for governmental funds to be reported on the modified accrual basis of accounting and for proprietary funds to be reported on the full accrual basis of accounting.

Condition/Cause

The Accounting Department records accounts payable throughout the fiscal year, but accounts receivable are only reconciled at year-end. In addition, significant adjustments are posted at year-end to bring numerous funds into compliance with U.S. generally accepted accounting principles.

Effect

Revenues are not being recognized consistently with expenditures and material adjustments are necessary at year-end resulting in inconsistent reporting.

Recommendation

All accounts should be reconciled on a timely basis consistent with reporting as required by U.S. generally accepted accounting principles.



Benefit

Matching revenues to expenditures and reconciling balance sheet accounts for all funds on a routine basis provides for more consistent reporting to provide a more accurate assessment of financial needs.

Management Response

The Accounting Division does reconcile receivables for all funds on a consistent and timely basis. However we rely on other departments/divisions for information to accurately reflect our receivables and because corrections are made by other department/divisions to customer's accounts, year end adjustments are needed to accurately reflect our receivable balance. The Finance Department is looking into creating a central billing department to handle all City customer accounts. This will ensure that proper recording of adjustments are made on a more consistent basis.

07-2 GRANT RECEIPTS

Criteria

The City receives funding from the Department of Housing and Urban Development (HUD) and uses a separate fund for tracking and reporting purposes. The IDIS system is used to communicate information to HUD as well as to draw down the funds and report program income.

Condition/Cause

There continues to be a need for improvement between the Community Development and Finance Departments to enhance the timeliness of IDIS reporting to be more consistent with the general ledger activity.

Effect

The City is not drawing down grant funds as expenditures are incurred and therefore current resources are not being utilized as effectively as they could be.

Recommendation

The CD Fiscal Officer is responsible for the timely draw down of grant funds. It is imperative that the Finance and Community Development Departments communicate to make sure draw downs related to expenditures being processed are drawn down in a timely fashion. Implementation of additional procedures could ensure an increased efficiency in this area.

Benefit

The City will be able to accurately reconcile its HUD funds to the general ledger activity on an ongoing basis.

Management Response

In September 2007 policy and procedures were implemented to insure timely draw down of HUD funds. The CD Fiscal officer does monthly reconciliations between the IDIS system and the City's general ledger. This has significantly improved the timeliness and efficiency of all IDIS reporting to be more consistent with the general ledger.

07-3 GRANT TRACKING AND MONITORING

Criteria

The City receives special funding for specific projects and uses the general ledger software to track project expenditures related to each funding source. These expenditure reports should be used to report the project status of the grants to the oversight agencies. There were project reports showing balances remaining on program contracts that were shown as unexpended at year-end. These contracts ended during the year, and based on discussion with the Community Development Department, all funds were expended during the project period.

Condition/Cause

The Community Development and Accounting Departments need to work together to communicate recording of expenditures to proper projects and funding sources on the general ledger, as well as to monitor the status each contract to maintain compliance with grant requirements.

Effect

The City is not appropriately tracking expenditures related to grants in accordance with provisions of grant contracts and capabilities of the general ledger software.

Recommendation

The Community Development and Accounting Departments should work together to monitor grant compliance.

Benefit

The City will maintain compliance with grant requirements.

Management Response

A Grant Coordinator was hired to assist the Grant Accountant in monitoring the status and compliance of our grants. The grant coordinator will work with the Community Development Department and Grant Accountant to communicate recording of expenditures to proper projects and funding sources on the general ledger.

07-4 PENSION REPORTING

Criteria

The City reports annual wages related to their active pension plans on Form AG-385 and submits the form to the state. The form is used to assist in the calculation of annual pension funding the City will be receiving from the state.

Condition/Cause

There has been turnover in the Pension Administrator position as well as within the Finance Department, and there have been other priorities plaguing these positions.

Effect

The City will receive state funding for pension obligations based on wages reported on the annual report. If wages are reported in excess of actual wages, the City will be over-funded by the state.

Recommendation

The preparation of the AG-385 should be completed in consideration of actual wages paid and the Internal Auditor's office should oversee the reporting due to the extensive involvement of the Internal Auditor with the pension funds.

Benefit

The City will be more capable of substantiating the AG-385 during state audits if appropriate supporting documentation is maintained. In addition, there is less likely to be excess funds received from the state.

Management Response

The Pension Administrator position will be moved to the Department of Finance. The administrator will be properly trained on completing the AG-385 and the City's internal auditor will review the report before it is submitted to the state.

07-5 PENSION COMPLIANCE

Criteria

The City has made significant changes to the pension plans over the past several years. It is imperative that these changes are made in accordance with state code for third class cities and the City Charter.

Condition/Cause

Numerous benefits have been granted to union employees that were not within the parameters of the established codes.

Effect

The City has granted benefits that are out of compliance with state code and the City Charter. In addition, the City failed to remit minimum municipal obligations to the pension funds during 2007.

Recommendation

State code and the City Charter should be evaluated during negotiations to ensure pension compliance prior to settlement of all union contracts. The City should also monitor requirements for remitting funding obligations to each fund.

Benefit

The City will be in compliance with governing documents related to pension.

Management Response

The City will hire a labor/union lawyer to negotiate all future union contracts. This will ensure that the City is in compliance with all applicable state and local codes.

07-6 UNCLAIMED PROPERTY

Criteria

Pennsylvania Statute 72 P.S. 1301 requires an entity to annually file an unclaimed property report to be filed by April 15th.

Condition/Cause

The City did not timely file an unclaimed property report for 2006. The 2006 report was filed in August, 2007. In addition, records related to tax overpayments make it difficult to accumulate a list of overpayments for prior years.

Effect

The City was out of compliance with a state statute.

Recommendation

We recommend that the City evaluate all tax overpayments to determine if there is unclaimed property to be remitted to the State. In addition, the City should begin to annually file an unclaimed property report in a timely fashion.

Benefit

The City would be in compliance with State statute.

Management Response

The Tax Division Manager is currently working with the IT Department to create program reports that will track the tax overpayments to the property owner to determine if there is unclaimed property to be reported.

07-7 SEGREGATION OF DUTIES – BANK RECONCILIATIONS

Criteria

Segregation of duties serves as a check and balance on employees' integrity and to maintain the best control system possible.

Condition/Cause

One individual is responsible for reconciling the two primary general fund checking accounts in addition to overseeing all general ledger functions.

Effect

Inadequate system of checks and balances poses a risk to the City's ability to accurately report its financial information and increases the City's susceptibility to misappropriation of assets.

Recommendation

We recommend that different individuals should perform the separate duties processing entries to the general ledger and performing bank reconciliation functions.

Benefit

An effective internal control system contains several checks and balances to reduce the risk of misappropriation of assets.

Management Response

The Accounting Division has experienced several staffing changes in the past few years. Due to these changes the division manager took over the duty of reconciling the two main checking accounts. The City is in the process of hiring another accountant who will be responsible for reconciling these accounts.

07-8 DCED REPORTING REQUIREMENTS

Criteria

The Department of Community and Economic Development (DCED) establishes reporting requirements for municipalities. The City did not timely file all of the required reports during 2007.

Condition/Cause

We noted several overdue reports due to DCED in March, 2008, including 2007 Tax Information due on 1/16/07, 2008 Elected and Appointed Officials due on 1/31/08, and 2007 Survey of Financial Conditions due on 3/15/08.

Effect

The City was out of compliance with state requirements.

Recommendation

We recommend that the City monitor mandatory reporting requirements and comply with filing deadlines.

Benefit

The City would be in compliance with state statute.

Management Response

The City's internal auditor will work the City's administration and Council ensure that all mandatory reporting requirements are filed on time.

07-9 EMPLOYEE RECORDS

Criteria

Federal regulations require the completion of an I-9 form and W-4 form upon the hiring of a new employee. The I-9 form verifies an individual's eligibility to be employed in the United States while the W-4 form determines the federal withholding related to the individual's wages.

Condition/Cause

During our review of a sample of employee records, we noted that numerous I-9 and W-4 forms could not be located by the Human Resource Department.

Effect

The City was out of compliance with federal statutes.

Recommendation

We recommend that the City monitor mandatory reporting requirements and comply with filing deadlines.

Benefit

The City would be in compliance with federal statutes.

Management Response

The Human Resource Department will perform an audit of the I-9 and W-4 forms against all employees and put into place policy and procedures to ensure future compliance of these forms.

07-10 JOURNAL ENTRIES

Criteria

The process for entering journal entries into the general ledger software system includes preparation by an employee in the Accounting Department and approval of the Accounting Manager.

Condition/Cause

In performing our audit procedures, we noted several posted journal entries that lacked appropriate management approval.

Effect

The City was not following appropriate processing procedures and was made susceptible to inappropriate entries being posted to the general ledger and financial information.

Recommendation

We recommend that the Accounting Manager approve all journal entries prior to posting them to the general ledger.

Benefit

The City would enhance the internal control structure related to journal entry processing.

Management Response

The City has a policy and procedure in place for the approval of journal entries. A few entries were missed last year due to staff oversight. The policy has been reinforced to the accounting staff that they are not to enter any journal entries without proper approval.

07-11 INFORMATION TECHNOLOGY

Criteria

The City relies on information generated by numerous software packages to make critical operating decisions. Changes to the software and its reports are made by the Information Technology (IT) Department to extract relevant information for analysis and reporting purposes.

Condition/Cause

There are several employees in the IT Department working on numerous projects. Documentation should be retained on changes being made and testing of reports prior to implementation should be done to ensure an accurate and useful final product. Projects should be prioritized and changes evaluated by someone with financial background.

Effect

During 2007, inaccurate reporting generated from software was still a problem. There is improvement but the critical nature of the area requires that all financial and user data be timely and accurate.

Recommendation

An increased separation of duties and testing prior to implementation would enhance overall internal controls in the IT Department as well as enhance the accuracy of reporting. The addition of a coordinator, with a financial background, to oversee and prioritize departments requests and to test alterations being made would add an additional level of oversight to the department.

Benefit

With the City's investment in software packages and IT personnel, increased controls and policies could improve overall operation of the IT Department and output of useful and accurate financial reports.

Management Response

It is the policy of the IT division that all user request programming and reports be tested and verified for accuracy, in writing, by the parent department prior to implementation in the production system. The Finance department will be requesting a new position within finance to oversee all billing processes and act as a liaison with the IT division.

07-12 UTILITY BILLING DATA

Criteria

The City provides various services to its citizens and the surrounding community: water and sewer service, recycling and trash collection, and emergency medical services. Customers are billed for the services rendered, payments are remitted, and the City accounts for this activity. Timely billing process is critical to the cash flow needs of the City.

Condition/Cause

The City spent significant resources on a new billing system which was put in service for the utilities in March, 2005. The software has been utilized during this period, but there continues to be ongoing issues with understanding and properly using the software.

Effect

Billing adjustments need to continue to be made. The subsidiary ledger and bills generated should all agree. Data must be accurate to allow for proper financial reporting.

Recommendation

We recommend that policies and procedures be implemented and that all staff using the software receive appropriate training.

Benefit

It is important for City management to have a clearer understanding of the billing process and more accurate financial reporting.

Management Response

All issues with the utility billing have been with the water billing process. The City has discussed the procedures in place in the Water Authority in regards to its processes for both current and collection balances and has recommended that the Water Authority follow the same policies and procedures currently in place for the City's other utility divisions. Water Authority management reviews all billing reports to verify that the data is correctly posted before bills are generated. The Water Authority is currently looking into purchasing a new billing system for Water bills.